



euroFINESCO

eBook n° 9

**Income
from
Portuguese Property**

by

Dennis Swing Greene

PORTUGAL

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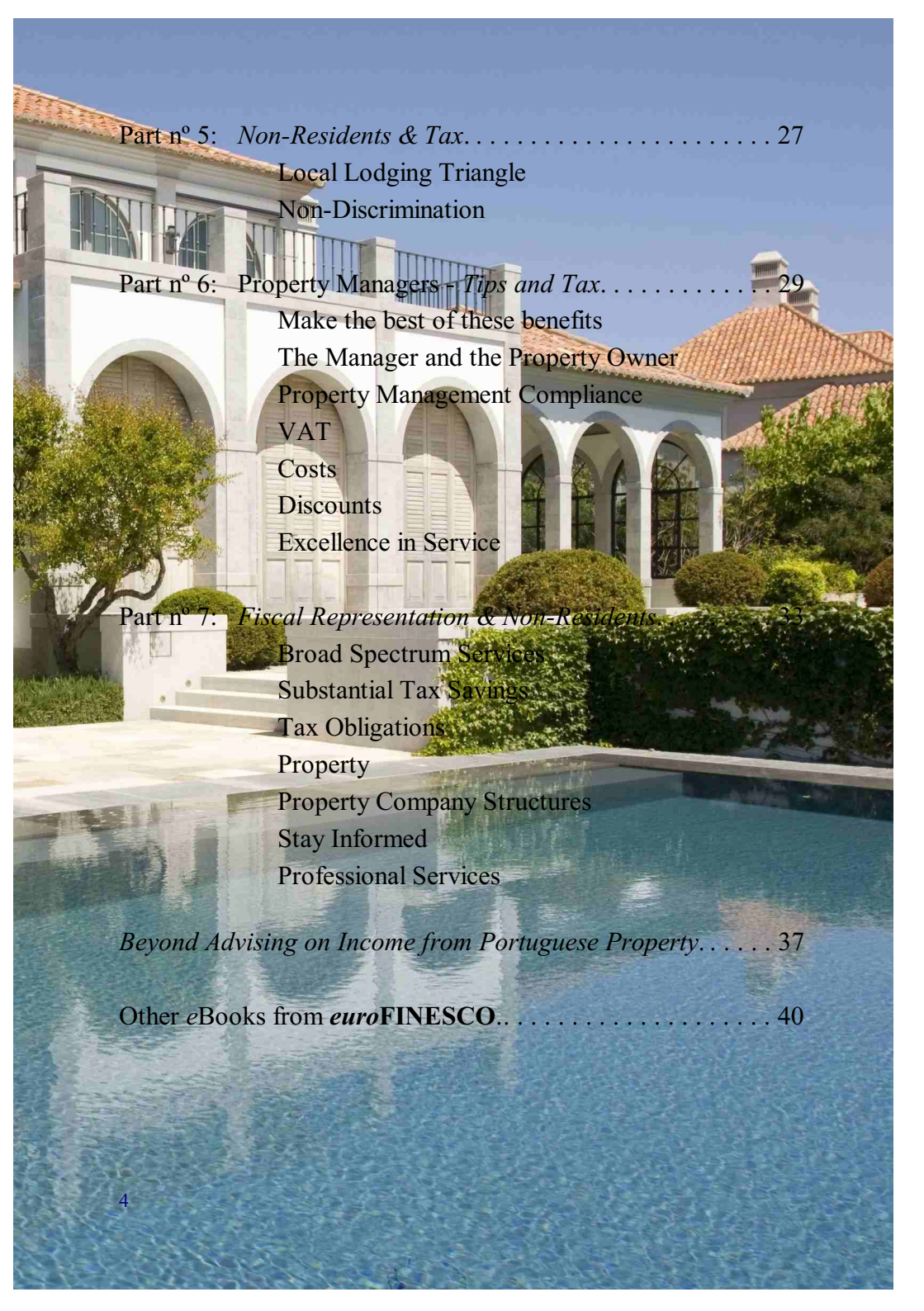
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INTRODUCTION

Why invest in Portugal?

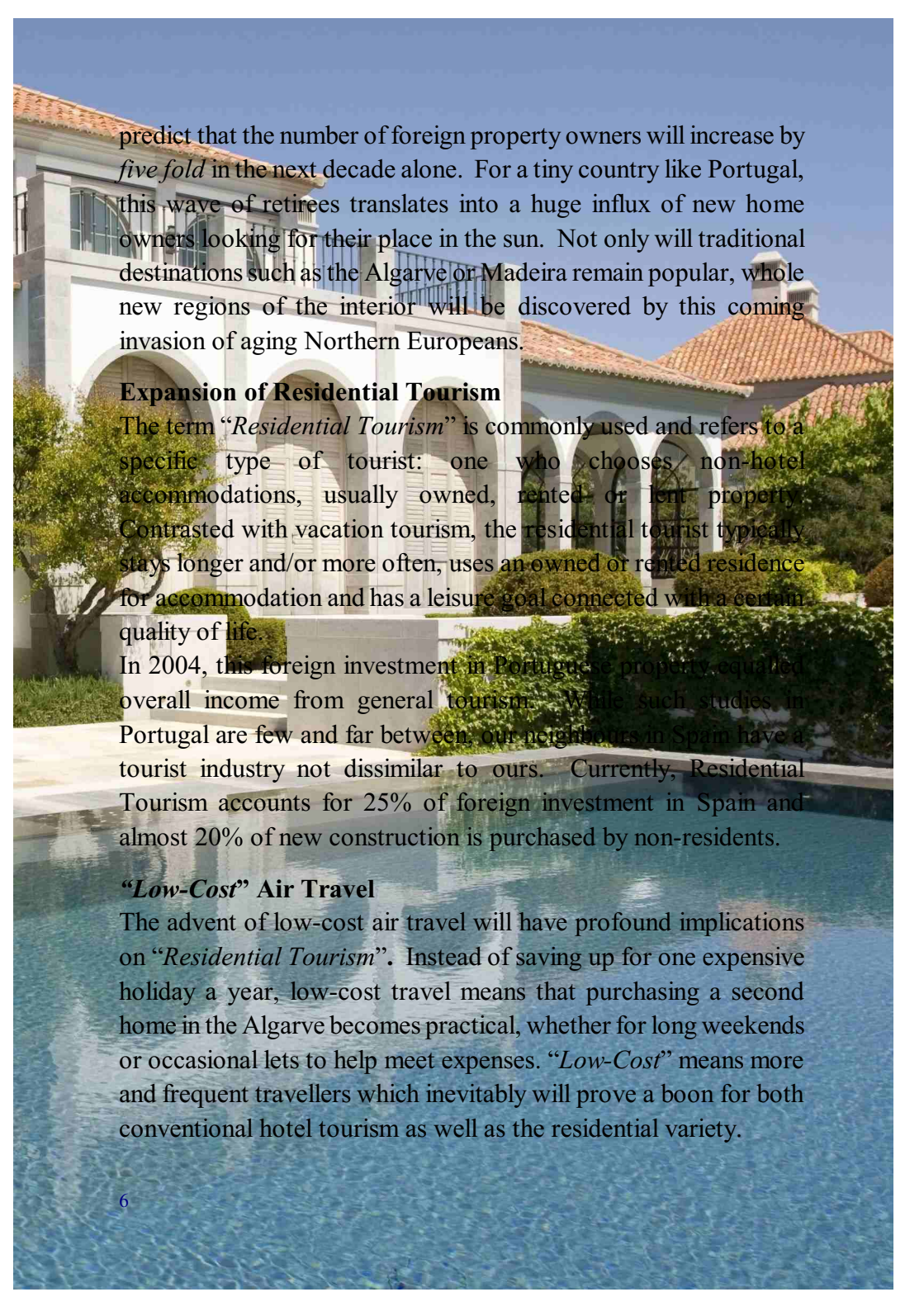
Why invest in Portuguese Property? This is a basic question that requires a solid answer before launching into a substantial commitment in a new country, particularly with the current bleak short-term outlook around the world. The potential on-going rewards, whether through direct use from owner occupancy or diverse forms of rentals, can bring in an excellent return with potentially promising tax treatment in Portugal. Let us examine some of the underlying factors that outweigh the short-term doom and gloom that bombards us daily on the evening news.

Demographics

The heart of future growth lies in the demographic reality of an aging Europe. We have all heard about the "greying of Europe". A recent report in the journal *Science* revealed a picture of a fast-ageing population. Life expectancy for British women, for example, has risen from just 50 a century ago to nearly 80 now and by 2080, it is expected to rise to 100.

The consequences for Society are startling. As it impacts on our youth-dominated culture, the aging population will spark a seismic change in the landscape, making all the familiar features unrecognisable. In all areas of life - pensionable age, crime patterns, popular culture, politics and family relationships - nothing will be left untouched.

Over the coming years, as the "baby-boom" generation retires, there will be a tidal wave of seniors migrating south to the warmer, more hospitable climates. In neighbouring Spain, demographers



predict that the number of foreign property owners will increase by *five fold* in the next decade alone. For a tiny country like Portugal, this wave of retirees translates into a huge influx of new home owners looking for their place in the sun. Not only will traditional destinations such as the Algarve or Madeira remain popular, whole new regions of the interior will be discovered by this coming invasion of aging Northern Europeans.

Expansion of Residential Tourism

The term “*Residential Tourism*” is commonly used and refers to a specific type of tourist: one who chooses non-hotel accommodations, usually owned, rented or lent property. Contrasted with vacation tourism, the residential tourist typically stays longer and/or more often, uses an owned or rented residence for accommodation and has a leisure goal connected with a certain quality of life.

In 2004, this foreign investment in Portuguese property equated overall income from general tourism. While such studies in Portugal are few and far between, our neighbours in Spain have a tourist industry not dissimilar to ours. Currently, Residential Tourism accounts for 25% of foreign investment in Spain and almost 20% of new construction is purchased by non-residents.

“Low-Cost” Air Travel

The advent of low-cost air travel will have profound implications on “*Residential Tourism*”. Instead of saving up for one expensive holiday a year, low-cost travel means that purchasing a second home in the Algarve becomes practical, whether for long weekends or occasional lets to help meet expenses. “*Low-Cost*” means more and frequent travellers which inevitably will prove a boon for both conventional hotel tourism as well as the residential variety.

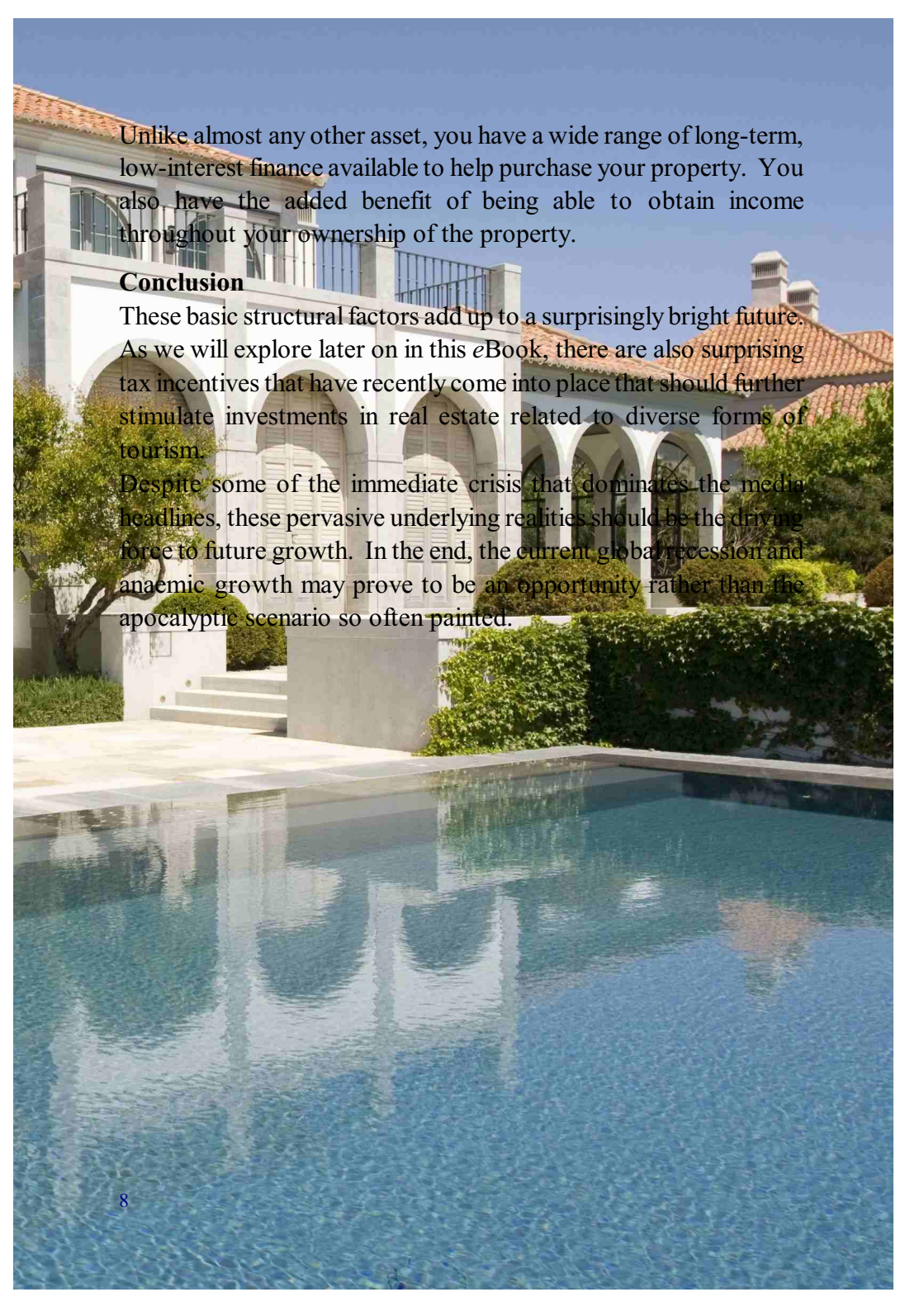
Climate

Although the Algarve is not on the Mediterranean, it does have a Mediterranean climate with mild, wet winters and dry summers. Basking in sunshine at the southernmost tip of Portugal, the Algarve enjoys perhaps the best climate in Europe. With only a short period of rainfall (it normally rains between November and March) and long hours of sunshine (the highest in Europe), the Algarve region is blessed with over 300 days of sunshine per year. Due to its relief and geographical position, the Algarve is influenced climatically by the European continent, North Africa, the Atlantic Ocean and the Mediterranean. The maximum temperatures in the Algarve vary throughout the year between 15°C and 31°C and the temperature almost never falls below zero in the winter.

Average Temperatures in the Algarve	
Air temperature in Summer:	24°C to 29 °C
Air temperature in Winter:	15°C to 18 °C
Seawater temperature in Summer:	21°C to 24°C
Seawater temperature in Winter:	15°C to 19 °C

Capital Appreciation

For over 50 years, property has proved to be the most consistent vehicle for investment, with property prices doubling every 7-10 years. Since the inception of statistical surveys, property has proven to be a great medium to long-term investment, regardless of short-term market fluctuations.

A large, white, Mediterranean-style house with a red-tiled roof and a swimming pool in the foreground. The house features multiple arches and a balcony. The pool is in the foreground, reflecting the sky and the house. The background shows a clear blue sky and some greenery.

Unlike almost any other asset, you have a wide range of long-term, low-interest finance available to help purchase your property. You also have the added benefit of being able to obtain income throughout your ownership of the property.

Conclusion

These basic structural factors add up to a surprisingly bright future. As we will explore later on in this *eBook*, there are also surprising tax incentives that have recently come into place that should further stimulate investments in real estate related to diverse forms of tourism.

Despite some of the immediate crisis that dominates the media headlines, these pervasive underlying realities should be the driving force to future growth. In the end, the current global recession and anaemic growth may prove to be an opportunity rather than the apocalyptic scenario so often painted.



nº 1: **RENTAL OPPORTUNITIES IN PORTUGAL**

different alternatives

The potential income from diverse rental options can bring in an excellent financial return, especially when coupled with long-term underlying capital growth of the property itself. Renting in the Portuguese market can take any of several forms:

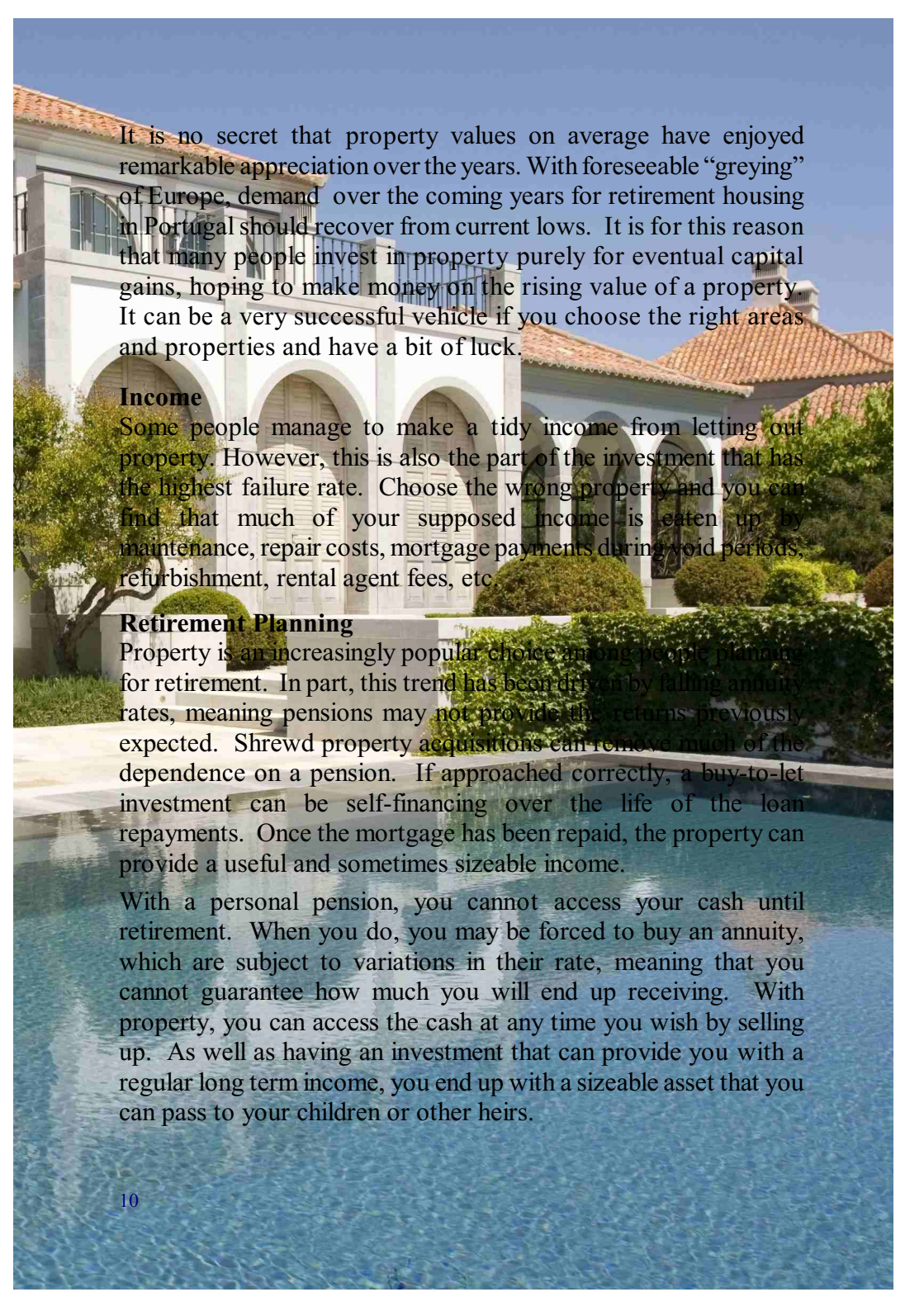
- long-term stable contracts with elderly retirees who wish to free up capital formerly locked up in their homes;
- the traditional resident rental market to Portuguese nationals;
- working EU expats and others; or
- high yielding seasonal lets, usually concentrated in popular resort regions.

BUY-TO-LET IN PORTUGAL

Buying a property to let can be a standard investment option or work in conjunction with long-term personal goals for eventual retirement. But as attractive as it might appear, this practice has the potential to include serious headaches as part of the package and is definitely not for everyone. However, when well managed, the rewards are promising.

Capital Growth

Over the long term, property is almost always an appreciating asset. Unless you buy at an overly inflated price in a peak market, let the dwelling fall into disrepair, or some kind of disaster besets the structure of the place, then you should eventually end up with a property worth considerably more than what you paid for it.

A large, white, Mediterranean-style building with a red-tiled roof and a swimming pool in the foreground. The building features several arched windows and doorways. The pool is in the foreground, and the sky is clear and blue.

It is no secret that property values on average have enjoyed remarkable appreciation over the years. With foreseeable “greying” of Europe, demand over the coming years for retirement housing in Portugal should recover from current lows. It is for this reason that many people invest in property purely for eventual capital gains, hoping to make money on the rising value of a property. It can be a very successful vehicle if you choose the right areas and properties and have a bit of luck.

Income

Some people manage to make a tidy income from letting out property. However, this is also the part of the investment that has the highest failure rate. Choose the wrong property and you can find that much of your supposed income is eaten up by maintenance, repair costs, mortgage payments during void periods, refurbishment, rental agent fees, etc.

Retirement Planning

Property is an increasingly popular choice among people planning for retirement. In part, this trend has been driven by falling annuity rates, meaning pensions may not provide the returns previously expected. Shrewd property acquisitions can remove much of the dependence on a pension. If approached correctly, a buy-to-let investment can be self-financing over the life of the loan repayments. Once the mortgage has been repaid, the property can provide a useful and sometimes sizeable income.

With a personal pension, you cannot access your cash until retirement. When you do, you may be forced to buy an annuity, which are subject to variations in their rate, meaning that you cannot guarantee how much you will end up receiving. With property, you can access the cash at any time you wish by selling up. As well as having an investment that can provide you with a regular long term income, you end up with a sizeable asset that you can pass to your children or other heirs.

The background of the page is a photograph of a large, white, classical-style building with a red-tiled roof. The building features several arched windows and doorways. In the foreground, there is a swimming pool with blue water. The sky is clear and blue.

Current Market Conditions

Today there is much talk about the melt down in the property market. However, many industry experts share the view that prospects for “*buy-to-let*” will continue to thrive whatever the external factors.

If you look at the housing market during times of recession, people are more likely to rent than buy, particularly first-time buyers. If prices are static or even falling, investors will be able to buy at a more realistic price and with the higher demand for rental properties, yields will, if anything, increase over and above those we have seen in the past. Likewise if interest rates increase, first-time buyers in particular are more likely to stay in rented accommodation, producing the same result for the investor.

Future Trends

Buy-to-let in Portugal should continue to be a sound long term investment, especially as reports show rental yields strong as well as increasing numbers of new tenancies together with the ongoing potential for capital appreciation. By comparison, in recent years we have seen huge stock market volatility, pension and endowment mis-selling scandals and poor returns on deposit-based investments.

LONG-TERM RENTALS IN PORTUGAL

Over the past 30 years, it has been increasingly difficult to find properties to let or, conversely, landlords willing to rent in Portugal. This is not due to any fundamental shortfall in housing on a national level. To the contrary, Portugal has one of the largest housing stocks per capita in the European Union. Yet more often than not, these second and third homes stand empty while young couples and students find it nearly impossible to find rental accommodation under reasonable conditions.

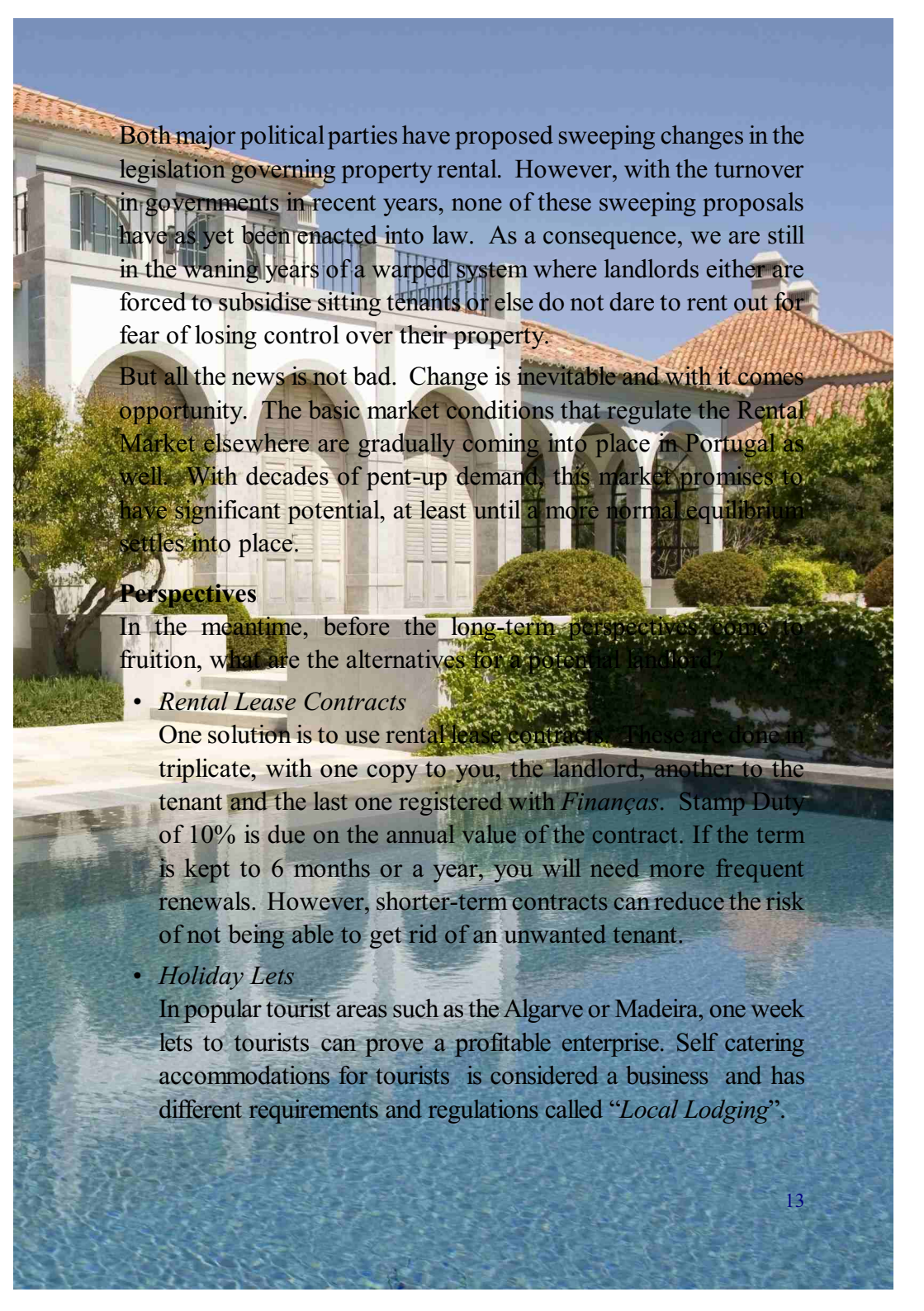
The background image shows a large, white, classical-style building with a red-tiled roof. The building features multiple arches and windows. In the foreground, there is a swimming pool with blue water. The scene is set outdoors with some greenery and a clear blue sky.

Background

Why such an imbalance? Historically, rental properties used to be quite abundant in Portugal. Years ago, it was common to see a small white paper square taped in each of the windows of an apartment or house that meant “For Rent”. In those days, prior to the inception of Social Security in Portugal in the 1960's, it was customary for many middle class families to save and eventually purchase property to rent to create an income flow that would sustain them in retirement, just as you may be contemplating to do today. When the 25 April Revolution came in 1974, all of this changed. Radical new laws were passed, giving tenants more rights than the landlords. Rents were frozen as well as the Rateable Value (“*Valor Patrimonial*”) of properties for all practical purposes. As history has proven over and again, when time becomes artificially suspended, distortions set in that eventually grow to ludicrous proportions. On the eve of the 2003 Property Tax Reform, 50% of the property owners in Portugal (those owning older housing) paid only 1% of the tax collected. At the other end of the spectrum, less than 1% of the owners (newly constructed housing) contributed over a third of property tax revenues. It is no wonder that the system needed a serious overhaul!

Market Distortions

These generalised low Rates assessments have had a perverse effect on the Rental Market. With overheads so low on most older properties, there was no need to bring in income to offset costs. Likewise, with little or no income from the properties, many older buildings have gradually fallen into a sad state of disrepair and, in some cases, serious degradation. This artificial lack of supply has led to distorted prices on the few flats available.

A large, white, classical-style building with a red-tiled roof and a swimming pool in the foreground. The building features multiple arches and columns, and the pool is filled with clear blue water. The scene is set against a clear blue sky.

Both major political parties have proposed sweeping changes in the legislation governing property rental. However, with the turnover in governments in recent years, none of these sweeping proposals have as yet been enacted into law. As a consequence, we are still in the waning years of a warped system where landlords either are forced to subsidise sitting tenants or else do not dare to rent out for fear of losing control over their property.

But all the news is not bad. Change is inevitable and with it comes opportunity. The basic market conditions that regulate the Rental Market elsewhere are gradually coming into place in Portugal as well. With decades of pent-up demand, this market promises to have significant potential, at least until a more normal equilibrium settles into place.

Perspectives

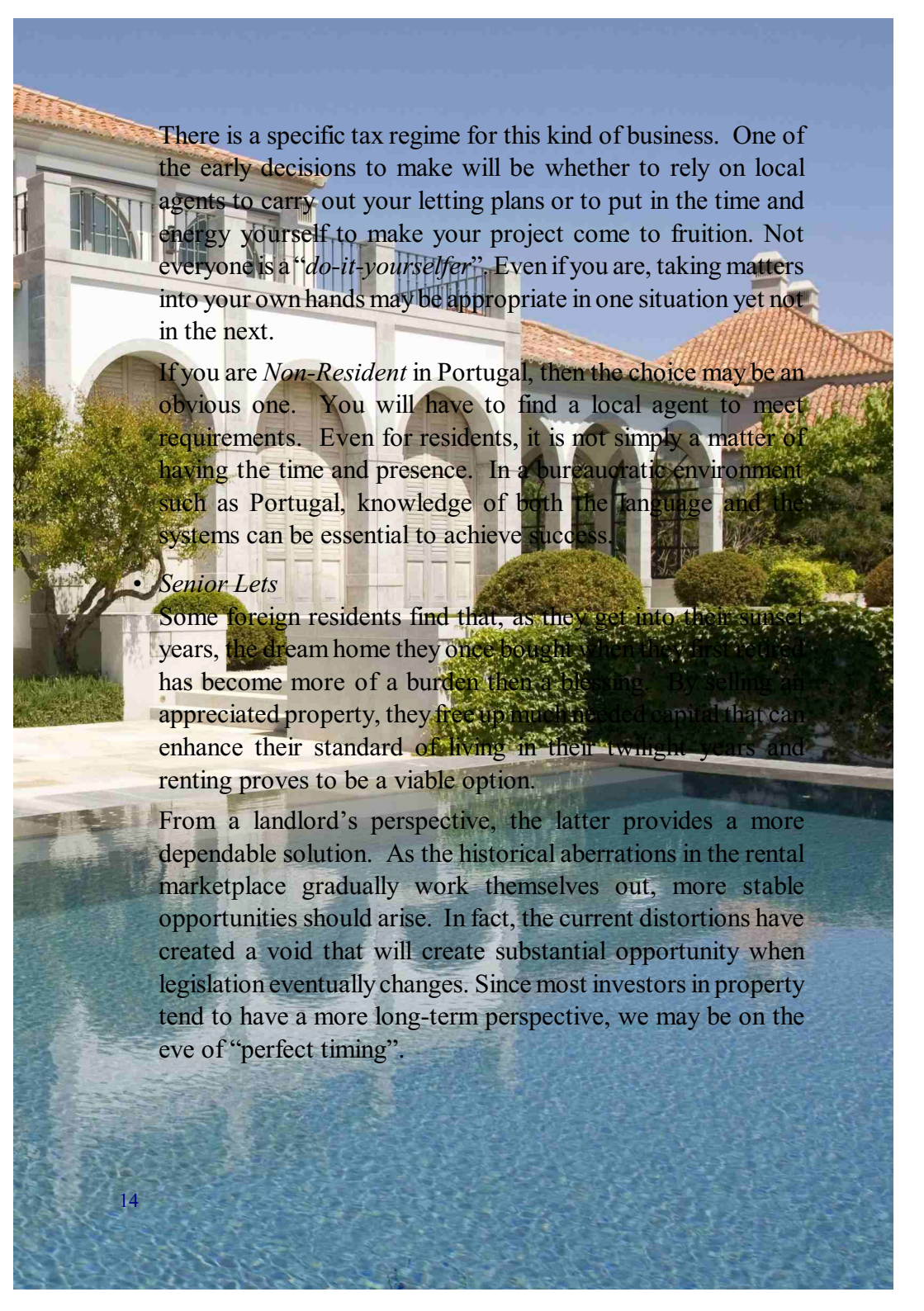
In the meantime, before the long-term perspectives come to fruition, what are the alternatives for a potential landlord?

- *Rental Lease Contracts*

One solution is to use rental lease contracts. These are done in triplicate, with one copy to you, the landlord, another to the tenant and the last one registered with *Finanças*. Stamp Duty of 10% is due on the annual value of the contract. If the term is kept to 6 months or a year, you will need more frequent renewals. However, shorter-term contracts can reduce the risk of not being able to get rid of an unwanted tenant.

- *Holiday Lets*

In popular tourist areas such as the Algarve or Madeira, one week lets to tourists can prove a profitable enterprise. Self catering accommodations for tourists is considered a business and has different requirements and regulations called “*Local Lodging*”.



There is a specific tax regime for this kind of business. One of the early decisions to make will be whether to rely on local agents to carry out your letting plans or to put in the time and energy yourself to make your project come to fruition. Not everyone is a “do-it-yourselfer”. Even if you are, taking matters into your own hands may be appropriate in one situation yet not in the next.

If you are *Non-Resident* in Portugal, then the choice may be an obvious one. You will have to find a local agent to meet requirements. Even for residents, it is not simply a matter of having the time and presence. In a bureaucratic environment such as Portugal, knowledge of both the language and the systems can be essential to achieve success.

- *Senior Lets*

Some foreign residents find that, as they get into their sunset years, the dream home they once bought when they first retired has become more of a burden than a blessing. By selling an appreciated property, they free up much needed capital that can enhance their standard of living in their twilight years and renting proves to be a viable option.

From a landlord’s perspective, the latter provides a more dependable solution. As the historical aberrations in the rental marketplace gradually work themselves out, more stable opportunities should arise. In fact, the current distortions have created a void that will create substantial opportunity when legislation eventually changes. Since most investors in property tend to have a more long-term perspective, we may be on the eve of “perfect timing”.



n° 2: **REPORTING RENTAL INCOME**

long-term rentals

The IRS Reform law brings substantial changes on assessment of rental income for landlords. The following highlights punctuate the principal modifications in the law. Allowable relief from assessment is now in line with the principles and practices of other member states in the EU.

- **Landlords can choose to be taxed in Category B**

Until now, when calculating income tax, landlords could only declare the proceeds from long-term letting of property in Category F (*rental income*). With the 2015 “IRS” Reform, landlords are now able to declare as a business and be taxed according to the rules of Category B (*Sole Trader business income*).

The legislation provides that, in either case, the basis for assessment is the same: rental income is only taxable on net income after deducting allowable overheads. Landlords can deduct all expenses essential to the exercise of the activity to determine their net income and apply the Category B tax rates. “Business” income from Category B is also subject to VAT when it exceeds €10,000 per annum. Category F remains VAT exempt.

- **Aggregation: new options**

Several categories of income may be taxed in one of two ways: *autonomous assessment* - taxed separately at a flat rate independent from other sources of income, or *aggregate assessment* - all forms of income are added together and then taxed at marginal rates. In the past, when one option was selected, it had to be applied to all forms of income. The most appropriate form may be selected for each category of income.



- **Losses may be deducted in subsequent years**

If you incur losses in conducting your rental activity, they may be written off over six years. This also applies to capital improvements in the property and, consequently, there were losses rather than profits. For losses to be distributed over future years, the building must be leased for at least 36 months, consecutively or not, over the following five years. The owner can do the work in a year when the property is not rented and present the invoices up to two years later.

- **Registration of Rental Contracts** (*“Modelo 2”*)

Rental contracts must now be registered using *“Modelo 2”*. In addition, each contract is assessed Stamp Duty of 10% based on the monthly rent.

- **Electronic Rent Receipts**


Taxpayers who declare under category F are now required to issue electronic rental receipt for all rental income. This receipt is posted through the *Finanças* website in an online application created for this purpose. However, the use of electronic rent receipt system became mandatory as of 2015.

- **Annual statement of rental income** (*Modelo 44*)

As an alternative to issuing electronic receipts, owners over 65 years of age may continue to use paper invoices but are still obliged to submit an annual statement with an annual breakdown of rents (*Modelo 44 - “Comunicação Anual de Rendas Recebidas”*). This form is available both in paper as well as in electronic form over the internet via the *Finanças* website.

- **Short term lets under Category F**

Certain forms of short term lets should be reported under Category F rather than as Local Lodging under Category B. For example, if you have an annual contract to the same party for repeated short-term use of a property (ie. one weekend each month throughout the



year), this rental contract falls under Category F (rental income) as opposed to tourist lets to random holidaymakers (Category B). Keep in mind that each tenant (when more than one) will require a contract and each contract must be registered via a Modelo 2. Each will have to pay the 10% Stamp Duty.

- **New basis for deductible expenses**

If you choose to be taxed under category F, the income from rents, net of allowances, will normally be subject to IRS at a separate rate of 28%. Necessary expenses incurred in the business activity – not just maintenance and repairs as before – are now deductible. This means that the agent's costs are now covered. Note that expenses for building contents (furniture, appliances, comfort or decoration) are not eligible.

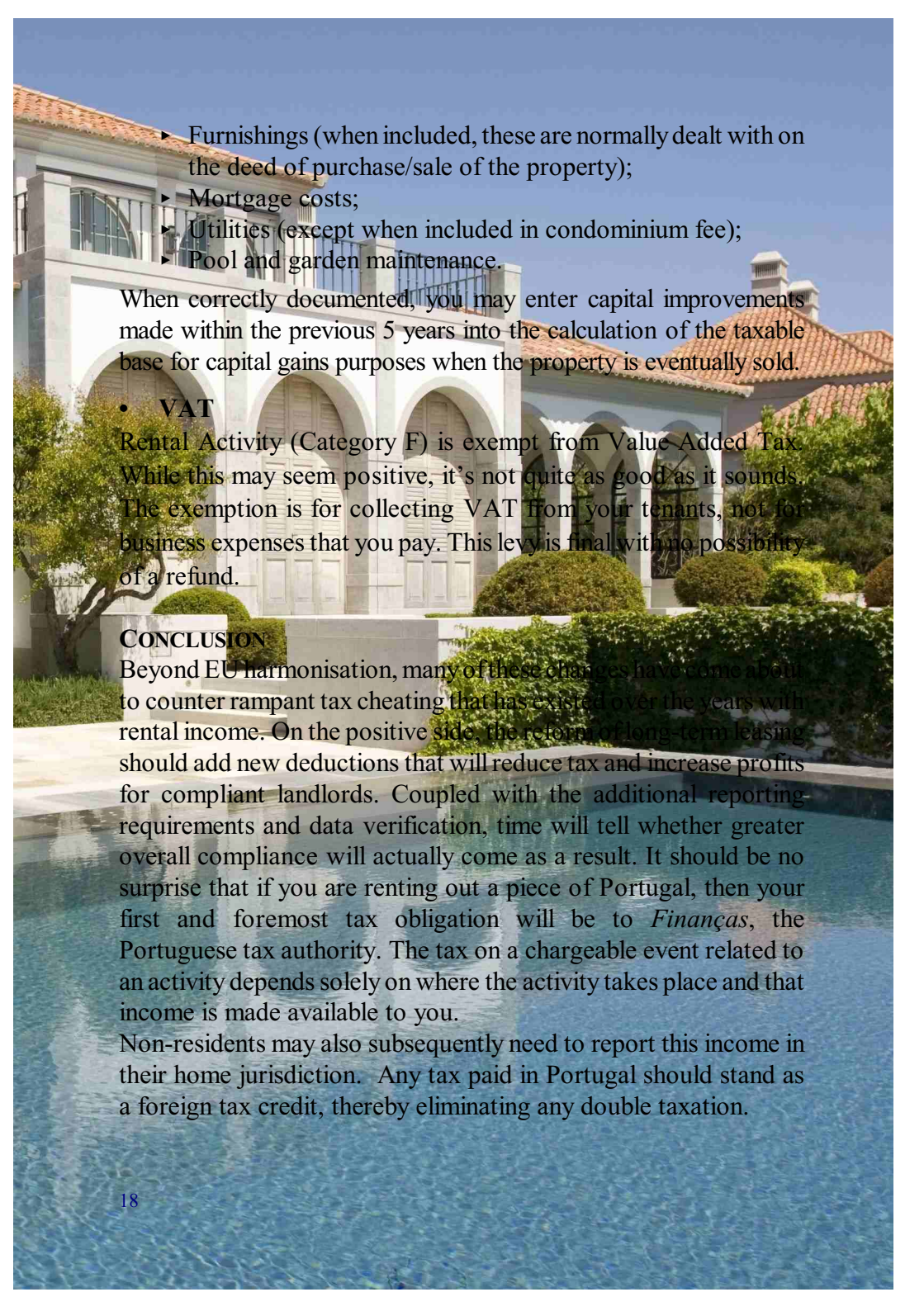
Finanças has been tightening up on its procedures in recent years, with more cross-referencing against different sources of information and a more concise interpretation of legislative guidelines. As a consequence the range of deductible expenses is significantly narrower than in previous years.

The Tax Office also appears to perform more frequent audits than before. Should the inclusion of non-deductible expenses lead to an audit, this will (probably) result in a re-submission and other extra costs as well as interest charges and fines.

- **Non-Deductible Expenses**

The following expenses are examples of expenditures which are not deductible:

- ▶ Construction altering the structure of the building (additions, new roof, pool, etc);
- ▶ Land or building acquisition;
- ▶ Installation of air conditioning;
- ▶ Other capital improvements, such as installation of irrigation systems, etc.

- 
- ▶ Furnishings (when included, these are normally dealt with on the deed of purchase/sale of the property);
 - ▶ Mortgage costs;
 - ▶ Utilities (except when included in condominium fee);
 - ▶ Pool and garden maintenance.

When correctly documented, you may enter capital improvements made within the previous 5 years into the calculation of the taxable base for capital gains purposes when the property is eventually sold.

- **VAT**

Rental Activity (Category F) is exempt from Value Added Tax. While this may seem positive, it's not quite as good as it sounds. The exemption is for collecting VAT from your tenants, not for business expenses that you pay. This levy is final with no possibility of a refund.

CONCLUSION

Beyond EU harmonisation, many of these changes have come about to counter rampant tax cheating that has existed over the years with rental income. On the positive side, the reform of long-term leasing should add new deductions that will reduce tax and increase profits for compliant landlords. Coupled with the additional reporting requirements and data verification, time will tell whether greater overall compliance will actually come as a result. It should be no surprise that if you are renting out a piece of Portugal, then your first and foremost tax obligation will be to *Finanças*, the Portuguese tax authority. The tax on a chargeable event related to an activity depends solely on where the activity takes place and that income is made available to you.

Non-residents may also subsequently need to report this income in their home jurisdiction. Any tax paid in Portugal should stand as a foreign tax credit, thereby eliminating any double taxation.



n° 3: **LOCAL LODGING** *short-term holiday lets*

UNDERSTANDING THE LEGISLATION

Originally passed in 2008, recent legislation (Decree Law 15/2014, of 23 January) has reconfirmed the statutory regime for the installation, development and functioning of tourist projects. The reforms outlined in the law are based on 3 fundamental principles: simplification, improving flexibility and better supervision and control with stiffer consequences for breaches of regulations.

One of the primary purposes is to eliminate needless bureaucracy, introducing responsiveness and agility into what traditionally has been a painfully slow process. The new decree-law concentrates 9 judicial diplomas into a single piece of legislation and is the most sweeping reform in decades.

Until 2008, over 20 separate subcategories of tourist developments existed. These are now replaced with 11 new designations without altering the purpose or established identity of each or the current trademarks being used. In addition, there is a new harmonised classification system which reflects not only the physical installations but also quality of the services provided. These ratings will be updated on a 4-year basis to reflect the evolution and management of these registered facilities.

DEFINITION

The characteristics of “Tourist Accommodations” are:

- a) furnished and equipped facility;
- b) available to the general public;
- c) living quarters + cleaning services + reception;
- d) duration of stay: *less than 30 days*.

LOCAL LODGING (“*Alojamento Local*”):

- a) **Definition:** Villas, Apartments or Guest Houses providing:
 - i) short term lodging, ii) for consideration, iii) not meeting established criteria of an “*Empreendimento Turístico*”.
- b) **Minimum Standards:** 1) *Quality* and 2) *Safety*
- c) **Registration** (*Licensing*): with Local Council (“*Câmara*”)
- d) **Exclusivity:** Only those registered “Local Lodgings” may rent to tourists, either by their owners or through agents.
- e) **Information Sharing:** The Council must share the Registry with “*Turismo de Portugal, I.P.*”
- f) **Classification:** Local Lodging may not use the classification “Touristic” or “Tourism”, nor any system of categorisation.

REGISTRATION OF “LOCAL LODGING”

Appealing to the spirit of “*Simplex*”, registration is done via a Letter of Application to the local Council Mayor 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;

Copies of the following documents should accompany the application:

- Habitation licence;
- Property Book (“*Caderneta Predial*”) from *Finanças*;
- Terms of Responsibility by qualified technicians for electrical and gas installations and others, if present;
- Technical drawings of property to be let.

Registrations are valid for a period of 8 years of continuous activity. If inactive for more than 1 year, approval is revoked.



ENERGY EFFICIENCY CERTIFICATE

Energy efficiency requirements related to new, renovated and existing properties came into effect in 2009. Administered through the Energy Agency (“*ADENE*”), any building to be sold or rented must have an Energy Efficiency Certificate describing the thermal properties of the building. New construction must meet minimum standards as defined in legislation.

BASIC STANDARDS OF QUALITY AND SAFETY

The following minimum requirements of Quality, Hygiene and Safety are outlined in the regulations published in 2008.

A. *Accommodation Units*

- Adequate furnishings and equipment;
- Shutter system to shield from exterior light;
- Proper doors and locks for safety and privacy;
- Windows for adequate ventilation.

B. *Basic Infrastructure*

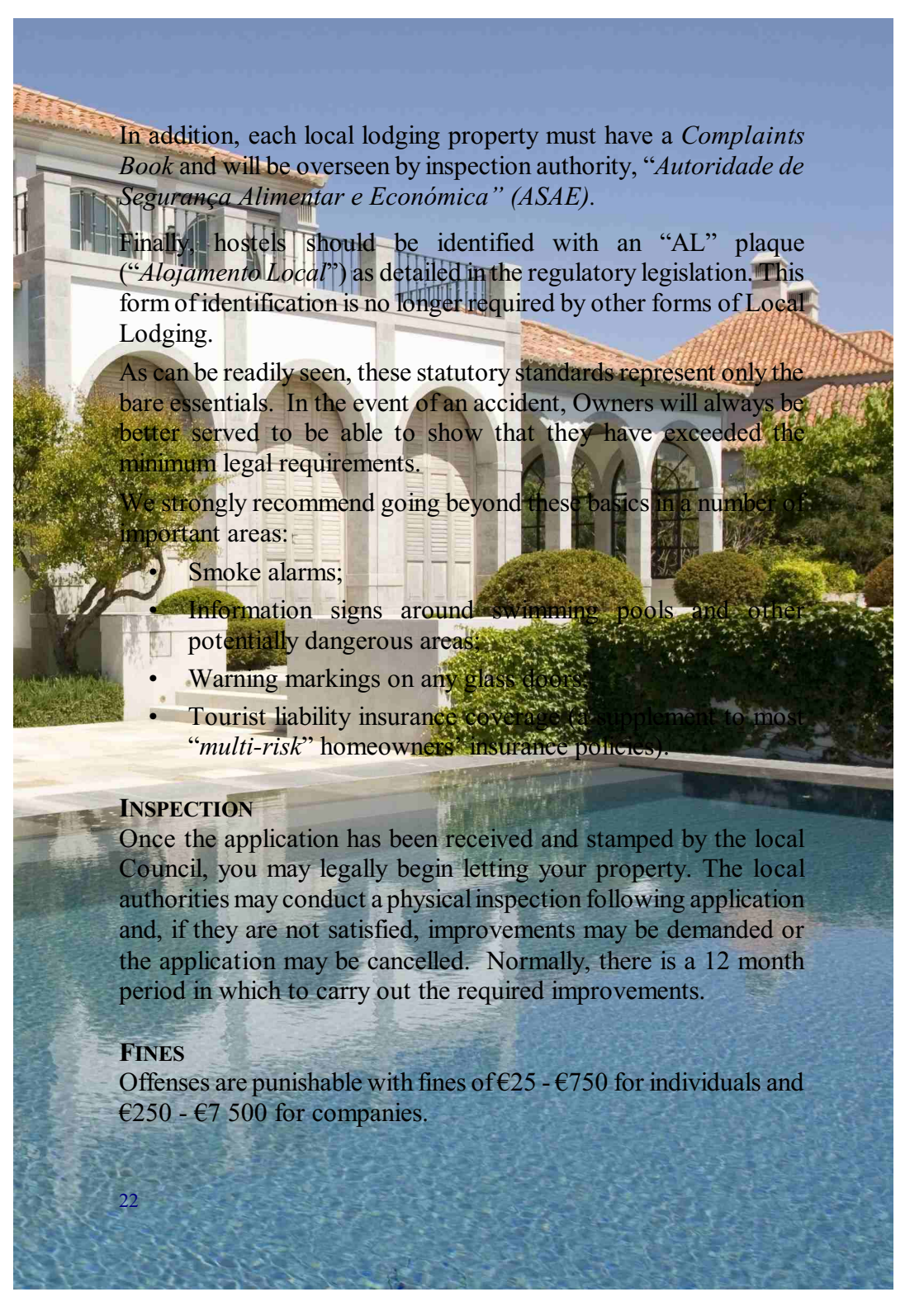
- At least one bathroom for each 3 bedrooms;
- Hot & cold running water in the lavatories;
- Access to a telephone;
- Septic system designed for the maximum occupancy capacity.

C. *Hygiene*

- Proper conditions of cleanliness and hygiene;
- Regular cleaning service and weekly linen service.

D. *Safety*

- Appropriate number of fire extinguishers and fire blankets;
- First aid kit;
- Instruction manuals for appliances;
- Emergency telephone numbers;
- Observation of basic rules of fire safety.



In addition, each local lodging property must have a *Complaints Book* and will be overseen by inspection authority, “*Autoridade de Segurança Alimentar e Económica*” (ASAE).

Finally, hostels should be identified with an “AL” plaque (“*Alojamento Local*”) as detailed in the regulatory legislation. This form of identification is no longer required by other forms of Local Lodging.

As can be readily seen, these statutory standards represent only the bare essentials. In the event of an accident, Owners will always be better served to be able to show that they have exceeded the minimum legal requirements.

We strongly recommend going beyond these basics in a number of important areas:

- Smoke alarms;
- Information signs around swimming pools and other potentially dangerous areas;
- Warning markings on any glass doors;
- Tourist liability insurance coverage (a supplement to most “*multi-risk*” homeowners’ insurance policies).

INSPECTION

Once the application has been received and stamped by the local Council, you may legally begin letting your property. The local authorities may conduct a physical inspection following application and, if they are not satisfied, improvements may be demanded or the application may be cancelled. Normally, there is a 12 month period in which to carry out the required improvements.

FINES

Offenses are punishable with fines of €25 - €750 for individuals and €250 - €7 500 for companies.



nº 4: “HOLIDAY LETS” AS A BUSINESS *reporting as a tourist activity*

“HOLIDAY LETS” AS A BUSINESS

If you let out furnished accommodations to tourists on a short term basis, you are mostly likely engaged in tourist related services (Category B) and should have already acquired a Local Lodging Licence (see Chapter nº 3). This type of activity receives special tax treatment under the “Simplified Regime” and is handled in the same way as “Sales”. In other words, you are only taxable on 13% of your invoiced income with the other 85% being automatically excluded to cover business overhead.

REQUIREMENTS:

Before You Start . . .

Before you start your commercial business activity in Portugal, you must first register. This is done either on paper in duplicate forms directly at your local *Finanças* office or electronically over the Internet as an online registration. Either way, both are in Portuguese only.

You will also need to register at the local Social Security office.

Running your Business . . .

You are required to keep books to track your income and expenses. While old-fashioned ledgers still exist for this purpose, most people opt for a computer bookkeeping program to track their business income and expenses on a regular basis. There are over 100 such programs that *Finanças* has approved.

VAT

Like any business, you must register for VAT. If you are letting directly to holidaymakers under a Local Lodging license, you lose VAT exemption if your annual income exceeds €10,000. Tourist related activities charge the lowest rate (currently 6%). Business expenses add 23%. The difference between the two is either paid to the State or returned to the taxpayer. Quarterly declarations must be done electronically via Internet and are in Portuguese only. If your activity is in collaboration with the management of a Tourist Resort, your activity is exempt from VAT whatever your volume of business. Non-Residents from non-EU countries need to appoint a Fiscal Representative specifically to meet VAT obligations. In addition to the normal appointment procedures, a Non-Resident must issue a Power of Attorney to the Representative to answer any fiscal matters directly with Finanças.

“Recibos Verdes electrónicos” (Green Receipts)

As in all business activities in Portugal, you are required to issue invoices to your clients. Mandatory receipts (*Recibos Verdes*) must be issued electronically via the Internet (*Sistema de Emisión de Recibos Electrónicos - SERE*).

Portuguese Income Tax

An “IRS” declaration must be filed in April / May in the following fiscal year. Most will find the Simplified Regime to be both simple and economical when compared to standard accounting practices. Gross income is reported on *Anexo B*. Local Lodging activities enjoy an exclusion of 65% to cover business overhead. This means they are taxed on only 35% of their invoiced income.

It is essential that owners invoice holidaymakers directly (and not to holiday management companies). If the latter were the case, the exclusion drops to only 25%. In tax terms, on an income of €10,000, this equates to an assessment of over €3,000 as opposed to under €220.



Social Security

Beginning in 2011, the Contributive Tax Code changed how sole traders calculate contributions. An indexed system of payments, similar to salaried employees, replaces the choices previously available to the Self-Employed. While the first-year exclusion from contributions remains in place, independent workers are no longer able to choose level of contributions. Instead, you make deductions according to the amount of income received, based on “IRS” declarations in the previous year.

If you already contribute to Social Security or receive an old age pension in Portugal or in another EU country, you may qualify for an exemption. Alternatively, contributions may be waived if your Local Lodging earnings do not exceed €12,500 per annum.

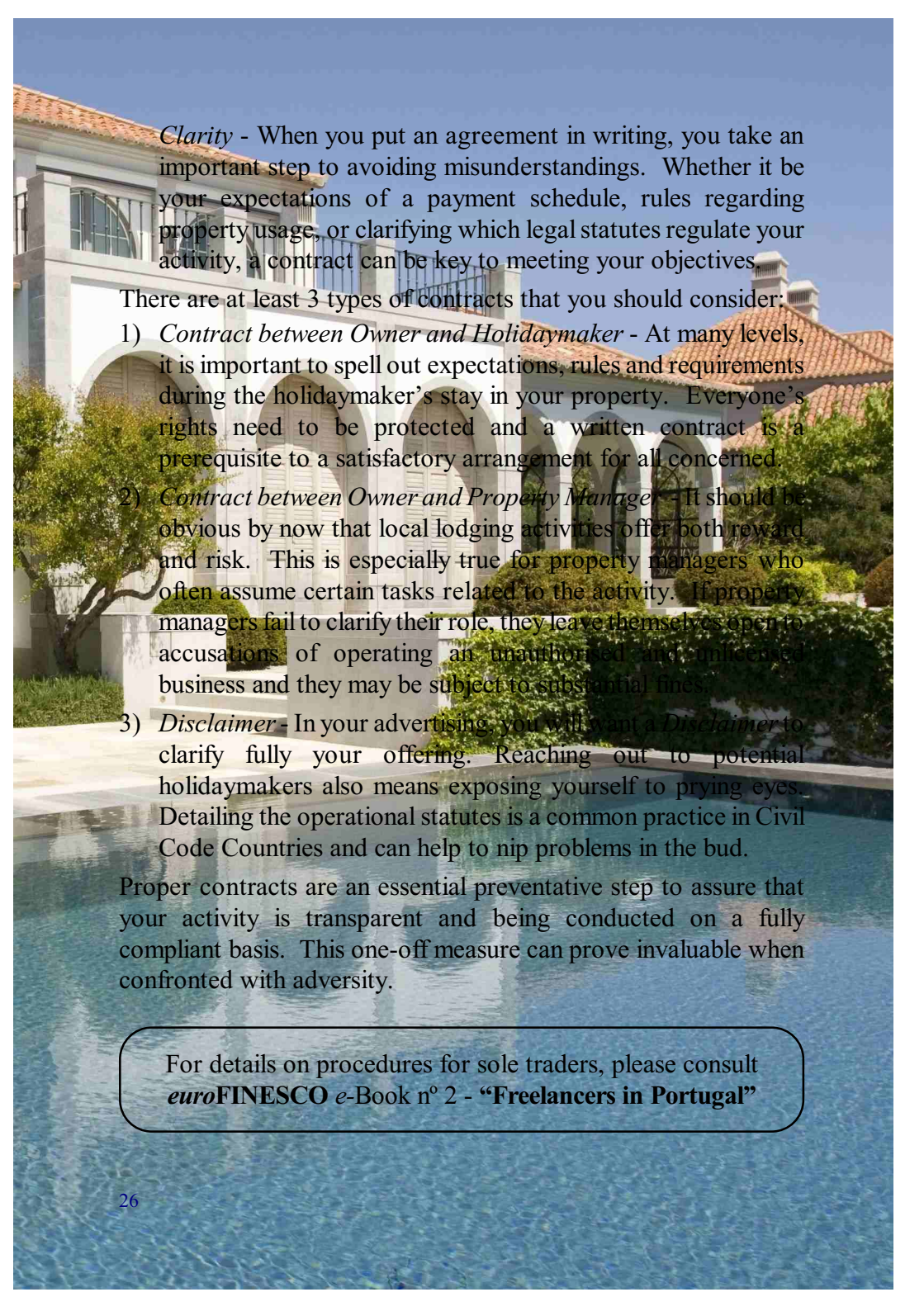
Closing your Business

Finally, in order to avoid any unnecessary taxation, you must notify *Finanças* when you cease your business activity via the appropriate forms within 30 days. You will also need to deregister for Social Security as well.

CONTRACTS

When purchasing property in Portugal and its subsequent letting, it is advisable to seek the services of a reputable lawyer or solicitor to help you make the right decisions regarding issues such as Property Purchase as well as related deeds and contracts. The same logic applies to Local Lodging where contracts are essential to assure:

Control - A written agreement customised to your needs means that you are the one who defines what you are doing. In the event of an inspection, inspectors will have their own agenda, one that is unlikely to coincide with your best interest.



Clarity - When you put an agreement in writing, you take an important step to avoiding misunderstandings. Whether it be your expectations of a payment schedule, rules regarding property usage, or clarifying which legal statutes regulate your activity, a contract can be key to meeting your objectives.

There are at least 3 types of contracts that you should consider:

- 1) *Contract between Owner and Holidaymaker* - At many levels, it is important to spell out expectations, rules and requirements during the holidaymaker'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 local lodging activities offer both reward and risk. This is especially true for property managers who often assume certain tasks related to the activity. If property managers fail to clarify their role, they leave themselves open to accusations of operating an unauthorised and unlicensed business and they may be subject to substantial fines.
- 3) *Disclaimer* - In your advertising, you will want a *Disclaimer* to clarify fully your offering. Reaching out to potential holidaymakers 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 activity is transparent and being conducted on a fully compliant basis. This one-off measure can prove invaluable when confronted with adversity.

For details on procedures for sole traders, please consult **euroFINESCO e-Book n° 2 - "Freelancers in Portugal"**



n° 5: **NON-RESIDENTS & TAX** *declaring as a Non-Resident*

Many *Non-Residents* have grown accustomed to declare their rental income as if it were from long-term rents, not from short-term holiday lets. There are a number of explanations for this practice. First, the former law was vague in distinguishing between the two. In addition, favourable tax rates were in place – a flat 15% assessment as opposed to the usual 25% rate for *Non-Residents*. The flat rate has now climbed to 28% or almost double. 1A further factor is the former omission of *Non-Residents* from the Simplified Regime that existed until a few years ago and with it access to advantageous taxation of tourist-related activities. This discrimination has since been removed. Finally, many have been slow to digest the changes in legislation, despite the highly favourable tax rates now available to all.

For example, on a *Non-Resident's* income of €20,000, long-term rents would pay €5,600 in tax. In contrast, on Local Lodging income declared as a sole-trader business, the levy would be just €1,750, a difference of almost €4,000.

Other Benefits

Further benefits include simplified record keeping, elimination of ever-changing criteria for deductions as well as the possibility to recover part if not all of VAT paid on operating expenses.

Local Lodging Triangle

In order to achieve favourable tax treatment of each respective business activity, Property Owners must be seen to let directly to Holidaymakers (i.e. *invoicing*) and then outsource support services to Property Managers. Under the Simplified Regime, Owners are eligible for an 35% exclusion. Property Managers also qualify for an exclusion of 90%.

PROPERTY OWNER
letting to tourists

**HOLIDAYMAKERS
MANAGER**
letting from Owner

PROPERTY
support services

Property Managers provide “support services” (such as cleaning, garden and pool care, maintenance, repairs, etc.) but do not participate directly in the Property Owner’s business activity (*Local Lodging*).

Holidaymakers let accommodations directly from the Property Owner. Other than periodic changes in linen, safety checks and cleaning between stays, they look after their own needs.

If **Agents** are seen to be letting to the **Holidaymakers** - and not the **Owners** - they will be regarded as taxable of the gross income, not just their commission. To make things worse, **Owners** will be treated in Category F and face a tax rate of 28%.

Non-Discrimination between Residents and Non-Residents

As of 2011, the optional regime applied to EU and EEA citizens is now applicable to broader kinds of income. This regime provides for the possibility of a tax refund whenever taxation exceeds what *Residents* would pay under the domestic progressive tax rate system.



Over the past several years, **euroFINESCO** has championed reducing assessments on Property Owners' Local Lodging income to below 9%, a $\pm 300\%$ reduction from prior practices. Property managers also enjoy a similar tax rate, usually below 10%.

Make the best of these benefits:

- A fully compliant solution;
- Taxation cut to little or nothing; *
- Increase profits while trimming your workloads;
- These and other benefits can be yours at zero cost to you!

** Ironically, the former tax method is no longer permitted and subject to fines.*

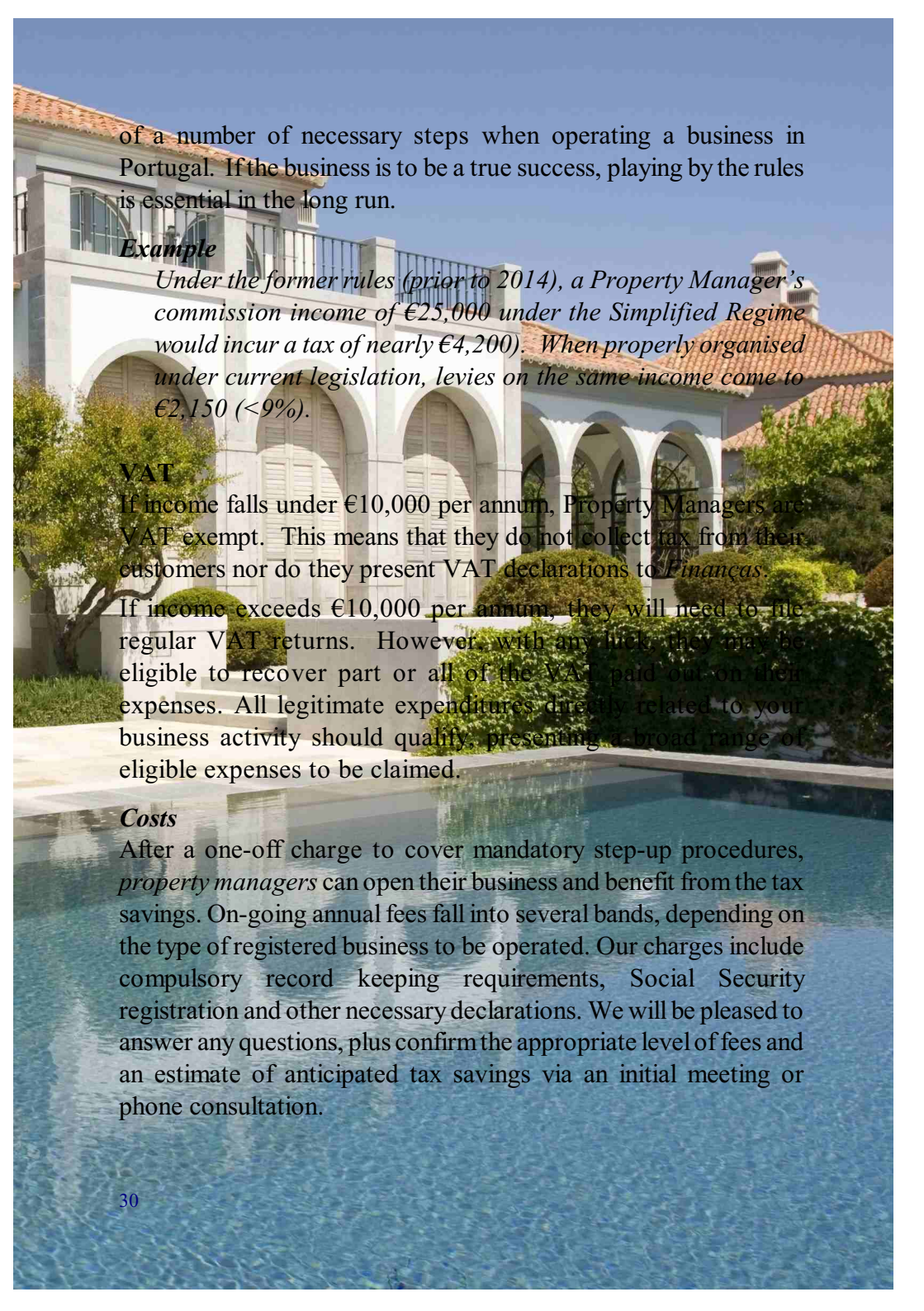
The Manager and the Owner

It is essential that the Property Manager be seen as a *service provider*, acting as an *outsourcing agent* on behalf of the Property Owner. The Owner may outsource services such as marketing, administration, letting collections, etc.

Any advertising should make explicitly clear that the lets are contracted directly between the Property Owner and Holidaymakers. Otherwise, Property Managers could find themselves liable for assessment on the full letting receipts, not just their commission.

Property Manager Compliance

Not only do Property Owners have to be compliant with Fiscal Representation requirements and filing of annual income tax returns, Property Managers have their own compliance obligations as well. An initial *commercial business registration* is only the first



of a number of necessary steps when operating a business in Portugal. If the business is to be a true success, playing by the rules is essential in the long run.

Example

Under the former rules (prior to 2014), a Property Manager's commission income of €25,000 under the Simplified Regime would incur a tax of nearly €4,200). When properly organised under current legislation, levies on the same income come to €2,150 (<9%).

VAT

If income falls under €10,000 per annum, Property Managers are VAT exempt. This means that they do not collect tax from their customers nor do they present VAT declarations to *Finanças*.

If income exceeds €10,000 per annum, they will need to file regular VAT returns. However, with any luck, they may be eligible to recover part or all of the VAT paid out on their expenses. All legitimate expenditures directly related to your business activity should qualify, presenting a broad range of eligible expenses to be claimed.

Costs

After a one-off charge to cover mandatory step-up procedures, *property managers* can open their business and benefit from the tax savings. On-going annual fees fall into several bands, depending on the type of registered business to be operated. Our charges include compulsory record keeping requirements, Social Security registration and other necessary declarations. We will be pleased to answer any questions, plus confirm the appropriate level of fees and an estimate of anticipated tax savings via an initial meeting or phone consultation.

A large, light-colored building with a red-tiled roof and a swimming pool in the foreground. The building features a series of arches and a balcony. The pool is in the foreground, reflecting the sky and the building. The scene is set in a sunny, outdoor environment with greenery and a clear blue sky.

Discounts

For each Local Lodging Property Owner signed up with **euroFINESCO**, we offer Property Managers a 2% discount, up to 100%. This means you can have the full benefit of our services at little or no cost.

Excellence in Service

Our *Property Manager Plan* is just one more example of how **euroFINESCO**'s experience, expertise and know-how can work for you, keeping you tax compliant while keeping tax to the legal minimum.

FISCAL & EXPATRIATE SERVICES
from
euroFINESCO



*We are a full service company, helping expatriates to make the most of their life in Portugal since 1991. Whether it be meeting obligations in a new land, maximizing opportunities in a smooth transition from the past, or financial and estate planning for the future, **euroFINESCO** is here to guide you, keep you compliant and prepare you to meet your goals.*

TAX CONSULTANCY

FISCAL REPRESENTATION

PORTUGUESE NOMINEE COMPANIES

CROSS BORDER ESTATE PLANNING

SMALL BUSINESS FORMATION

DOCUMENTATION



n°7: **FISCAL REPRESENTATION & NON-RESIDENTS** *making the most of your Fiscal Representative*

Non-residents from outside the EU owning real estate in Portugal must have *Fiscal Representation*. Many European nationals choose to have a *Fiscal Representative* to take advantage of the many support services that enhance their quality of life in Portugal.

BROAD SPECTRUM SERVICES

Your property in Portugal is a major investment. If compliance requirements go unmet, your valuable asset will be at risk. A qualified *Fiscal Representative* is an essential, not an extra.

1. ***Compliance***

For non-EU citizens, *Fiscal Representation for Non-Residents* is a legal requirement in Portugal to ensure that you meet all tax commitments. Those owning property or with income arising in Portugal require *Fiscal Representation* services to meet their fiscal responsibilities.

2. ***Accountability***

Your *Fiscal Representative* answers for your tax obligations, whether as *liaison* with *Finanças*, defending you in a tax audit or ensuring that all fiscal commitments are met.

SUBSTANTIAL TAX SAVINGS

3. ***Paying the Legal Minimum***

Save thousands when reporting your rental income. Take advantage of our *know-how* and experience to reduce your tax bill to only 5% and still leave you eligible for a refund.

4. **Your Rightful Refund**

As EU citizens, Residents and Non-Residents have the right to comparable tax treatment. As your Fiscal Representative, we can get you your lawful refund when overtaxed.

TAX OBLIGATIONS

5. **“IRS” Income Tax Returns**

As the leading tax advisors to the expatriate community, our “IRS” Income Tax Guide celebrates its 16th annual edition. We’re proud to say: *“We wrote the book!”*

6. **Tax Simulations**

Before taking key decisions, we can provide you with Tax Simulations so you can foresee the consequences of each option.

PROPERTY

Anticipating your needs:

7. **Before you buy . . .**

Helping you choose the right structure;

8. **Before you let . . .**

We arrange Local Lodging Licensing and Energy Efficiency Certification;

9. **Before you sell . . .**

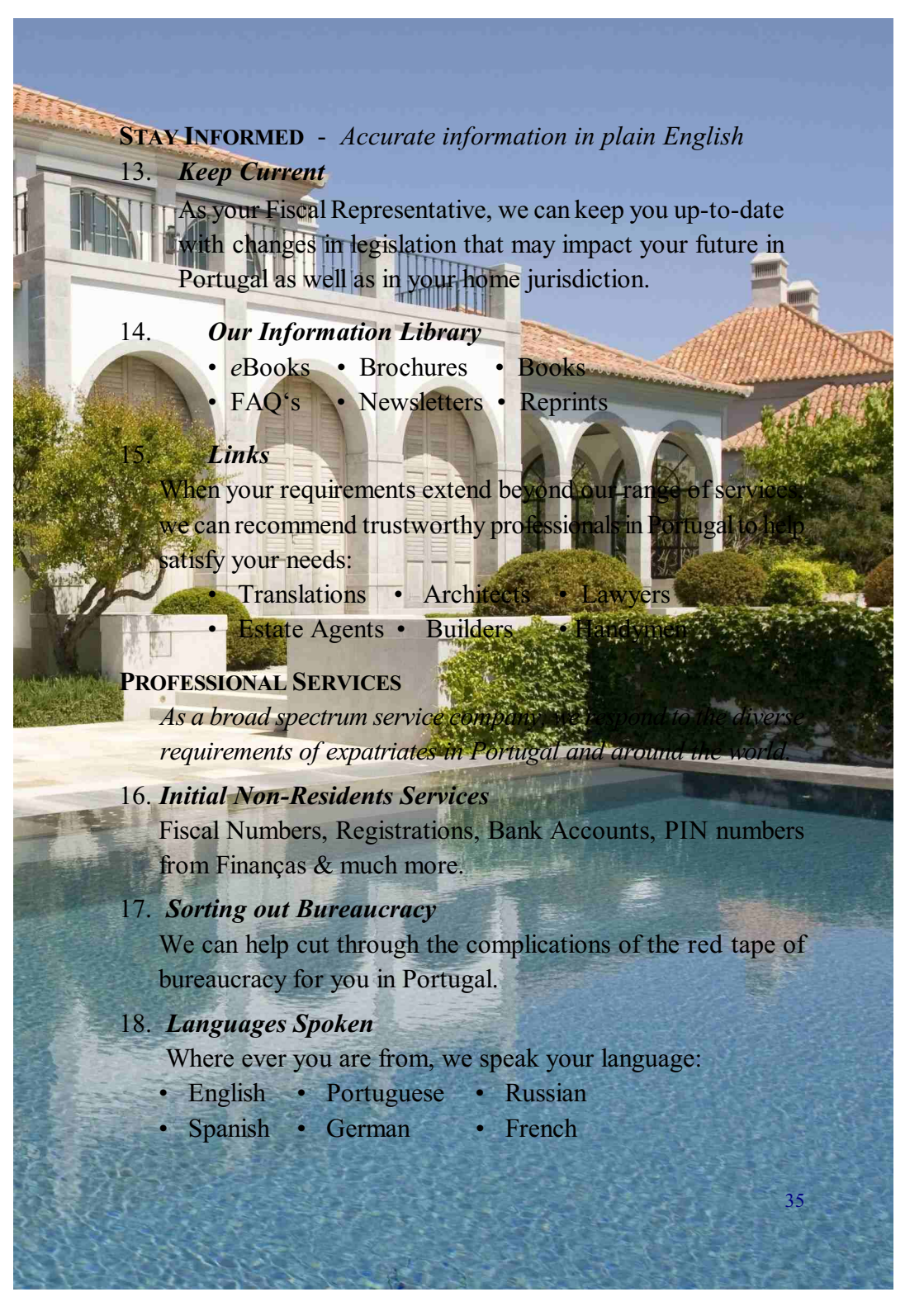
We provide Capital Gains Tax analysis *at no extra charge*

PROPERTY COMPANY STRUCTURES

10. **Offshore Companies** - Avoiding a “White Elephant”

11. **“White-listed” Companies** - Pros & Cons

12. **Portuguese Nominee Companies** - a “win - win” solution



STAY INFORMED - *Accurate information in plain English*

13. *Keep Current*

As your Fiscal Representative, we can keep you up-to-date with changes in legislation that may impact your future in Portugal as well as in your home jurisdiction.

14. *Our Information Library*

- eBooks
- Brochures
- Books
- FAQ's
- Newsletters
- Reprints

15. *Links*

When your requirements extend beyond our range of services, we can recommend trustworthy professionals in Portugal to help satisfy your needs:

- Translations
- Architects
- Lawyers
- Estate Agents
- Builders
- Handymen

PROFESSIONAL SERVICES

As a broad spectrum service company, we respond to the diverse requirements of expatriates in Portugal and around the world.

16. *Initial Non-Residents Services*

Fiscal Numbers, Registrations, Bank Accounts, PIN numbers from Finanças & much more.

17. *Sorting out Bureaucracy*

We can help cut through the complications of the red tape of bureaucracy for you in Portugal.

18. *Languages Spoken*

Where ever you are from, we speak your language:

- English
- Portuguese
- Russian
- Spanish
- German
- French



19. **Availability**

We have convenient offices throughout Portugal:

- Algarve (*Guia - Albufeira*)
- Lisbon (*Chiado*)
- Madeira (*Funchal - Sé*)

20. **Flexibility**

Working with you, your family, property manager, or whoever you choose to represent you.

21. **Personalised Service**

Our knowledgeable team is dedicated to meeting your individual needs in Portugal.



Beyond advising on Income from Portuguese Property

At **euroFINESCO**, we take pride in being a frontrunner in fiscal and expatriate services in Portugal, playing a leading role in interpreting Portuguese fiscal legislation as plain English for the foreign resident community since 1991.

PORTUGUESE TAXATION

- *IRS* - Individual Income Tax Returns
- *IRC* - Income Tax Preparation for Portuguese Nominee Companies as well as Non-Resident Companies
- Fiscal Residency Transitions to Portugal
- Fiscal Representation for Non-Residents

INTERNATIONAL TAX ISSUES

- Bilateral Tax Treaties
- Compliance Issues

PERSONAL TAX PREPARATION

The Portuguese tax system offers surprising opportunities to the foreign resident. When properly prepared, Portugal can be a “tax haven within Europe” for you.

PORTUGUESE “*IRS*” INCOME TAX RETURNS

euroFINESCO specializes in helping foreign residents by preparing and submitting their annual Portuguese *IRS* Income Tax Returns.



NOMINEE COMPANIES FOR PORTUGUESE PROPERTY

- Meeting basic compulsory compliance commitments;
- Liaison between *Finanças* and Company Owners.
- Resourcing information to Owners;

FISCAL REPRESENTATION

- Protecting your Valuable Investment
- Meeting Compliance Requirements
- Resourcing Key Information
- Liaison with *Finanças*
- Personalised Service
- Payment Facility
- Plain English

DOCUMENTATION

We can assist you by cutting through the bureaucracy:

- “*Residências*”
- Portuguese Wills
- Driving Licenses
- Rates Exemptions
- Fiscal Numbers
- Medical Cards

SMALL BUSINESS FORMATION

We can help expatriates launch new businesses in Portugal:

- Choosing the right structure
- Accountancy Services
- Business & Social Security Registration
- Social Security & VAT

CROSS BORDER ESTATE PLANNING

Cross Border Planning for individuals becomes important when assets and income are split between two or more jurisdictions. If you are a foreign resident, married to a foreigner, have international sources of income, or have assets in another jurisdiction, Cross Border Planning may be necessary to avoid unforeseen harsh Inheritance Tax consequences.

Anytime foreign laws are introduced into a plan, complexity is an inevitable outcome because contradictory legislation must be accounted for. Because laws are so different in the international arena, planning in advance becomes essential.

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eBooks from euroFINESCO

- 1) Offshore Companies: *Moving Onshore*
- 2) Freelancers in Portugal
- 3) Requirements of the Common Reporting Standard
- 4) Setting Up Fiscal Residence
- 5) Capital Gains Tax on Portuguese Property
- 6) Portuguese Tax Code Summaries
- 7) “VPT” Unveiled
- 8) Tax-Efficient Investing in Portuguese Property
- 9) Income from Portuguese Property
- 10) Taxation on Portuguese Property
- 11) “S.C.I.”: *Sociedade Civil Imobiliária*
- 12) Property Companies: *White-List or Portugal*
- 13) Nominee Companies for Portuguese Property
- 14) Fiscal Representation in Portugal
- 15) “Permutas” or Property Swaps
- 16) Estate Planning & Nominee Companies
- 17) “I.H.T.” – Residence Rules & Determining Domicile
- 18) Moving to Portugal – *before, during & after*
- 19) Taxation of Pensions in Portugal
- 20) “I.R.S.” Tax Credits
- 21) CGT Mitigation: *14 Arrows in the Quiver*
- 22) Residence Rules: *in the EU, Portugal and the UK*
 - Extracts from *Relocating to Portugal - Useful Information*
 - 23) Acquiring Portuguese Citizenship
 - 24) Visas and Legal Framework
 - 25) Your Rights to Health Care
 - 26) Access to Education
 - 27) Recognition of Qualifications
 - 28) Social Security Entitlements
 - 29) Golden Residence Visa
- 30) Leaving Portugal - *Moving Back*
- 31) Non-Habitual Residency and beyond
- 32) Trusts, Foundations and Fiduciary Structures