CAPITAL GAINS - *Real Estate*

Capital Gains are a prime target for the taxman and you can be certain that *Finanças* will pursue outstanding assessment throughout the EU and around the world.

Capital Gain calculation

Although it is *Finanças*, not you, who does the actual calculation, it is always worthwhile anticipating what the final assessment will be. For a property sold last year originally purchased in 1994, the calculation of the Capital Gain is as follows:

Step 1: Based on the year of acquisition, multiply the original purchase by the Inflation Adjustment Coefficient table.

Step 2: From the final sales price, subtract the adjusted purchase price. This gives the gross profit.

Step 3: Subtract any qualifying buying or selling costs (commissions, notary fees, transfer tax, etc.)

Step 4: Subtract any documented capital improvements to the property in the past 5 years.

Step 5: The difference between the adjusted profit and the deductable expenses is your net taxable gain.

Step 6: One half of the net profit is assessed unless rolling the gain into another principal residence. Either way, report the sale on your annual *IRS* return.

1989. . . .	2.42
1990. . . .	2.16
1991. . . .	1.91
1992. . . .	1.76
1993. . . .	1.63
1994. . . .	1.56
1995. . . .	1.50
1996. . . .	1.46
1997. . . .	1.44
1998. . . .	1.39
1999. . . .	1.37
2000. . . .	1.34
2001. . . .	1.25
2002. . . .	1.21
2003. . . .	1.17
2004. . . .	1.15
2005. . . .	1.13
2006. . . .	1.09
2007. . . .	1.07
2008. . . .	1.04
2009. . . .	1.05
2010. . . .	1.04
2011. . . .	1.00

Important Note:

If you own your home through an Offshore or another non-resident company, the full gain is assessable to the Company in the year of sale and should be reported on the company's *IRC* declaration.

Resident vs. Non-Resident Individuals

If you are Non-Resident for tax purposes in Portugal, the Capital Gains Tax calculation is quite simple: 25% of the full net profit.

If you are resident in Portugal, there are two options:

1) one half of the capital gain is excluded. The other 50% of the adjusted net profit is added to overall income for the fiscal year and taxed at marginal rates (properties purchased prior to 1989 are exempt for Capital Gains Tax).

2) However, the gain may be rolled over if another *principal residence* of equal or greater value is bought between 24 months prior and 3 years after the sale. For newly acquired properties of lesser value, the gain is calculated on a pro-rata basis.

If the reinvestment is less than the amount of the sale, you may owe additional tax and have to pay interest to *Finanças* on the non-reinvested balance. In the event that no reinvestment takes place, an assessment will be made on the entire non-reinvested balance plus interest.

Since 2007, it has been possible to reinvest anywhere within the EU. Note that proof of residency is required from the Revenue in the new country of residence.

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