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FISCAL & EXPATRIATE SERVICES

CAPITAL GAINS TAX
on Portuguese Real Estate

It comes as no secret that real estate in Portugal has proven to be an excellent investment over the years. However, if you sell a house that you own in your own name, you still have to reckon with the Taxman before spending the profits. This means that you must report your gain in a Portuguese "*IRS*" Income Tax declaration.

How is the Capital Gain calculated?

Although it is *Finanças*, not you, who does the actual calculation, it may be worthwhile knowing what the damage will be. Let's suppose that you sold your home last year that you had originally purchased in 1994.

Calculate your capital gains as follows:

Step 1: Based on the year of acquisition, multiply the purchase price by the Inflation Adjustment Coefficient.
(See chart)

Step 2: Subtract the adjusted purchase price from the selling price. This is your gross gain.

Step 3: Subtract any qualifying buying or selling costs (commissions, notary and legal fees, transfer tax, etc.) and documented capital improvements to the property in the past 12 years. This is your net taxable gain.

Step 4: One half of the net profit is assessed unless the gain is rolled over into another principal residence. Either way, report the sale on your annual *IRS* declaration.

Important Note:

If you own your home through an Offshore or another form of non-resident company, the full gain is assessable in the year of sale and should be reported on the company's "IRC" declaration. Beware of double tax liability!

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.

Inflation Adjustment Coefficient

1989 - 2.49	2003 - 1.20
1990 - 2.22	2004 - 1.18
1991 - 1.96	2005 - 1.16
1992 - 1.81	2006 - 1.12
1993 - 1.68	2007 - 1.17
1994 - 1.60	2008 - 1.07
1995 - 1.54	2009 - 1.08
1996 - 1.50	2010 - 1.07
1997 - 1.48	2011 - 1.03
1998 - 1.43	2012 - 1.00
1999 - 1.41	2013 - 1.00
2000 - 1.38	2014 - 1.00
2001 - 1.29	2015 - 1.00
2002 - 1.24	2016 - 1.00

If resident in Portugal, there are two options:

1) one half of the capital gain of the adjusted net profit on the sale of your principal residence is added to overall income for the fiscal year and taxed at marginal rates.

2) However, gains may be rolled over if another *principal residence* of equal or greater value is bought between 24 months prior and 36 months after a sale. When only a partial re-investment is made, the gain is calculated on a pro-rata basis.

What happens if I fail to reinvest?

Since you have two years prior and up to three years after to buy your new home, the amount that you reinvest may not always be the same as what you planned in the year of the sale. In the event that you fail to buy another property or only partial reinvestment takes place, an assessment will be made on the non-reinvested balance plus interest.

Can I get rollover relief if I move to another EU country?

Yes. Rollover relief on Capital Gains is applicable upon reinvestment in a new principle residence anywhere in the EU within the above mentioned time periods. Proof of Residency will be required in order to be eligible for tax relief.

As a Non-Resident, I pay higher CGT than Residents. Is this fair?

As EU citizens, Residents and Non-Residents have the right to comparable tax treatment. You have the right to refund if you are overtaxed

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