



ROYALTIES (*Category B or G*)

Royalties - *the temporary or permanent transfer of intellectual or industrial rights* - are considered to be part of Category B (independent business activities) when made by the originator, or in Category G when transferred by a third party. When in Category B, no prior registration is required unlike other forms of business activities. However, as “intellectual workers”, they have the same Social Security obligations as do other Sole Traders.

Royalties directly to the author

a) Paid in Portugal

Royalties paid in Portugal are subject to a 5% withholding tax.

b) Paid from Abroad

If Royalties are paid from abroad, Double Tax Convention rules may apply. If so, tax withheld at source will be considered up to the percentage defined in the respective double tax treaty and will be eligible for an *international tax credit* in Portugal. Any additional balance withheld should be refunded by the Source Country.

Assessment of Royalties

For resident taxpayers who are the original authors, the first €10,000 of Royalties are entitled to a 50% exclusion. Under the Simplified Regime (when income falls below €150,000), the balance is then reported allowing for a further 30% exemption.

Non-Residents currently pay a flat rate withholding of 25% on Portuguese-sourced royalties.

Withholding for residents is at 16.5%. Alternatively, this income is added to other sources to determine the final tax rate.

Reported as income from abroad (*Anexo J*), it is not necessary to register the activity. If tax is deducted at source on foreign royalties, Portugal will grant a tax credit up to the limit as defined in the appropriate Double Tax Treaty.



Example: Mr. Smith received €55,000 in Music Royalties in 2016 to which he is entitled to a 50% exclusion (up to a maximum of €10,000), leaving a taxable income of €50,000. As part of the Simplified Regime, he was subsequently taxable on 95% of this amount or a net of €47,500. This amount is added to other sources of income in order to determine final assessment at marginal rates.

(Reported as income from abroad in Category B, he is not required to register as a business activity nor pay Social Security Contributions.)

Royalties paid to a third party

If royalties were originally bought from the author and now received by a third party, the full income is taxable with no exclusions. If withholding takes place, it will be at the rate of 16.5% for residents and 25% for non-residents as a final payment.

While reported on Annex B as business income, no prior registration is required nor will this income trigger mandatory Social Security contributions in Portugal.

Sale of Royalties

The sale of royalties is taxed in Category G (Capital Gains). The full gain is taxable at 16.5 % to Residents and 25% to non-residents.