



## Coercive Settlement and loss of tax abatements

If you meet any of the criteria to be considered resident for tax purposes in Portugal, you are required to register with the tax authorities and submit annual tax declarations. Tax residents are liable to Portuguese taxation on worldwide income. When a taxpayer fails to report income that is the object of information sharing from any number of diverse sources, *Finanças* moves to coercive settlement of the assessment due.

There are two basic situations that can occur: a) unintentional negligence giving inaccurate accounting that does not correspond to information received by the Tax Authorities and b) deceit in failing to declare income otherwise reported to *Finanças* from other sources. In the first case, the “AT” normally proceeds to direct notification of the error, requesting prompt resolution. In the latter instance, failure to declare presumes dishonesty on the part of the taxpayer. This shortcoming leads to fines, default interest charges as well as the loss of *tax abatements* otherwise normally available to compliant taxpayers. Under the Portuguese tax system, there are three types of *tax abatements* for tax residents. If lost due to non-compliance, the consequences can be severe.

### 1) “*Deduções Específicas*” – Tax Allowances

Tax Allowances are deductible amounts from the gross income in each category of income. While the purpose may vary from one source of income to another, the overall intent is to compensate for extenuating factors. In the case of pension income, the allowance was first introduced when Portugal joined the European Union and overhauled its tax system to be EU compatible. The reduction was partially designed to redress the fact that under the prior income tax code, pensions were tax exempt.



## 2) “*Desagravamento Fiscal*” – Tax Exclusion

Tax exclusions are a commonly used tool in the Portuguese tax system, existing in most categories of income. As with Tax Allowances, the purpose of Tax Exclusions is to compensate for contributing factors such as underlying double taxation or necessary expenses. The exclusion is expressed as a percentage of gross income received.

## 3) *Beneficio Fiscal* – Tax Relief

Tax relief is intended to encourage certain types of behaviour to enhance long-term national, social or economic goals, such as energy efficiency, education, social justice, etc. Non-Habitual Residency is a popular example of this type of tax relief and is intrinsically different from either of the afore-mentioned abatements.

## ABATEMENTS AND PENSIONS

Each type of abatement may occur with pension income (Category H):

1) *Tax Allowance*: the once generous pension allowance that reached a peak in 2005 of €8,253 has levelled off at €4,104 in recent years. The benefit applies automatically to all forms of pensions: public, Social Security and private.

2) When specified standards are met, an 85% *Tax Exclusion* may apply to occupational and other private pensions to rectify potential underlying double taxation issues on the capital portion of pensions (past contributions to a qualifying pension fund). Only the net taxable portion of this income is reported in subsequent annual tax declarations.

3) *Tax Relief*: Since 2009, Non-Habitual Residency offers newly-arrived expatriates in Portugal a 10-year tax holiday on many forms of income from abroad, most notably pensions. NHR is designed to encourage high net worth individuals to settle in Portugal. The status must be requested and approved before being granted. These tax breaks can add up to substantial savings. Compliance is essential to avoid losing these valuable entitlements.