Portugal: Tax Breaks & Sunshine

This article explores the key Portugal tax benefits and lifestyle factors that make Portugal so attractive.

By **Lionel de Freitas**, 20th May 2024

Portugal's allure extends far beyond its stunning landscapes and vibrant culture. In recent years, the country has emerged as a favourite destination for international citizens seeking a tax-advantageous and fulfilling lifestyle. This article explores the key tax benefits and lifestyle factors that make Portugal so attractive.

Portugal's Tax Advantages

- **Favourable Inheritance and Gift Tax:** Portugal boasts one of the lowest inheritance and gift tax rates in Europe with no taxes applying to spouses, children, and parents, and 10% applying in other scenarios. Further, if you are a national of another country, you may be able to opt Portugal to govern your succession as a whole. Read **here** for more information.

- **Capital Gains Exemption on Primary Residence:** No capital gains tax applies when selling your primary or main residence in Portugal – provided you reinvest in a primary home within 36 months after the sale or 24 months before in another home in Portugal, within the European Union or European Economic Area that has a tax treaty with Portugal. Read **here** for more information.

- **Non-Habitual Resident (NHR) Regime:** Introduced to attract foreign talent and investment, Portugal's NHR program offers significant tax benefits for a ten-year period. The regime has undergone several revisions over the years. Read **here** for more information.

- **Trust Income:** Although trusts are not recognized in Portuguese law, taxation still applies. Distributions from trusts are taxed as investment income at a rate of 28% (unless from a blacklisted tax jurisdiction where the rate is 35%). The benefit in taxation of trusts may lie upon liquidating, revocation or extinction, where the following may apply:
  - **Liquidation/revocation/extinction for a settlor-beneficiary:** When the trust ends and the person who created the trust (settlor) also receives the assets (beneficiary), the proceeds are treated as a capital gain and taxed at a rate of 28% in Portugal (the tax rate increases to 35% when received from a Portuguese blacklisted jurisdiction).
  - **Liquidation/revocation/extinction for a non-settlor beneficiary:** If someone other than the person who created the trust receives the assets upon termination, it's not taxed as income. Instead, a 10% stamp duty applies in Portugal, but only to assets physically located in Portugal (real estate incurs an additional 0.8% surtax).

- **Life Insurance Bond Benefits:** Life insurance bonds in Portugal offer significant tax advantages. Tax rates in Portugal vary between 11.2% and 28% when redeemed – depending on factors such as the holding period. Unpaid gains as well as gains paid upon death may be exempt from personal taxation in Portugal.

- **Crypto gains:** Holding crypto gains for more than a year may be exempt from personal taxation – with shorter holding periods taxed at 28% (with exception to professional trading activities). Read here for more information.

- **Investment Income:** Typically, dividends and interest income are subject to a fixed tax rate of 28% (unless the scale rates are less which may then be applied). Note that depending on where these investments are located and depending on whether Portugal has a double taxation agreement in place with the respective jurisdiction, a reduced rate may apply.

- **Double Taxation:** Portugal boasts a network of close to 80 double taxation agreements with other countries allowing for efficient tax structuring to avoid double taxation on income. Read here for more information.

Lifestyle Benefits in Portugal

Portugal offers a wealth of lifestyle benefits that complement its many tax advantages. The country enjoys a warm, sunny climate with mild winters, especially in the southern regions, making it an ideal destination for those who appreciate pleasant weather year-round. The stunning natural beauty of Portugal, from its pristine beaches and impressive mountains to charming countryside towns, provides endless opportunities for outdoor activities and exploration. Whether you enjoy hiking, surfing, or simply relaxing by the sea, Portugal's diverse landscapes have something for everyone.

In addition to its natural beauty, Portugal is known for its lower cost of living, which can be a significant advantage for retirees or individuals on a fixed income. Housing, groceries, and dining out are generally more affordable compared to many other European countries. This economic benefit is complemented by Portugal's relaxed and laid-back culture, offering a slower pace of life that many find appealing. The rich history and vibrant culture of Portugal, with its charming towns, historical sites, and lively traditions, provide a deep well of experiences for those interested in immersing themselves in a new culture.

Furthermore, Portugal has a growing English-speaking community, particularly in popular areas for expats. This can make the transition to living in Portugal smoother for those not fluent in Portuguese, fostering a sense of community and belonging. All these factors combined make Portugal an attractive destination for those seeking a high quality of life with the added benefit of favourable tax conditions.

Sun, Sand & Tax Savings: Why Portugal Should Be Your Next Move

Portugal's combination of tax breaks and a desirable lifestyle makes it a compelling choice for those seeking a fresh start. However, careful planning and professional guidance are crucial for navigating the legalities of moving and maximising the tax benefits available. Consulting a qualified tax professional and immigration lawyer can ensure a smooth transition and help you leverage Portugal's offerings to the fullest. Portugal presents a unique opportunity to enjoy a high-quality life while minimising your tax burden. With its favourable tax regime, beautiful scenery, and rich culture, Portugal is a gem waiting to be explored. Reach out to Dixcart Portugal for more information **advice.portugal@dixcart.com**.

The above is not considered tax advice but rather general information around taxation consequences that may arise in Portugal.