

May 2015

Welcome to our 13th Sovereign Portugal Newsletter. We aim to keep you, our client, informed of tax issues that might affect you as a resident or property owner in Portugal and also about the Sovereign Group services.

STOP PRESS!**2014 RENTAL INCOME DECLARATIONS**

Sovereign are currently preparing and submitting the tax returns for 2014 income. If you rented out your Portuguese property the income must be declared in Portugal regardless of where the income was obtained. Deadlines for submission are the end of May so contact us now if you have not yet sent us the information.

Do not forget to keep us informed of any email and address changes.

Following our notifications last year, Sovereign has been busy registering their clients under the new Category B regulations for the declaration of rental income in 2015.

The new law for tourism rentals became effective from 27th November 2014 making it mandatory for any individual letting property to register with the Tax Department as self employed to run a business activity. This law included some alterations to the Alojamento Local (AL Tourist licence) registration regime which requires any property owner who intends to let for short term tourist letting to register with the local council.

The change in reporting letting income created by the new law will mean a substantial reduction in tax payable on the income you receive but requires a disciplined and ongoing accounting relationship between you, the property owner (or the property agent), and Sovereign – Consultoria Lda in order to comply.

At all times the property is let, Sovereign must be informed by email or fax, on a monthly basis, of the letting dates concerned, the rental amount, the name and country of residence of the person renting and his/her Portuguese fiscal number (if applicable). This will enable Sovereign to issue online at the tax department the mandatory invoices/receipts.

It is also necessary to deal with the social security requirements of registration and we will need to analyse if you meet the conditions to apply for exemption, which are either for pensioners or if you are already contributing to an official social security institution in your own country of residence.

Sovereign will act as accountants for your business activity preparing and submitting your invoices using a licensed program. It is a time consuming job for you, the client, and for Sovereign which will however, be compensated by mitigation of your tax burden.

The calculation of your tax will be on the basis of your turnover according to the "Simplified Tax Regime", meaning your tax will be based on a fixed amount of profit equal to 15% of your rental income. A flat tax rate of 25% will apply to that 15% profit which will determine a final tax rate of 3.75%.

Sovereign provides full assistance in all requirements for a once only registration fee plus an annual fee which will cover the following services:

- Fiscal Representation;
- Tax Return preparation and filing;
- Online invoicing and monthly reports compliance;

If you are renting in 2015 and have not yet registered as above please contact us urgently!

NEW REGULATIONS FOR DECLARING RENTAL INCOME (CATEGORY F) FOR PROPERTY OWNERS NOT OBLIGED TO REGISTER AS CATEGORY B (above)

In line with the recent changes for the declaration of tourist lets rental income further obligations take effect **from 1st May 2015** for the declaration of rental income in cases of long term rental contracts or for property owners who have leased their property to a Portuguese entity for them to take over the AL licence and run the letting business.

From May, monthly rental income receipts must be issued online, by the 8th day of the month in respect of the previous month's income.

As the fiscal representative for clients, Sovereign will be providing this service at an extra nominal cost. It is imperative that clients inform us in writing the income received.

New rental contracts must also be registered online at the tax department. If you rent under this category contact us regarding the issuing of your receipts.

If you have a long term tenant in your property you must act now !!

Increasingly non-residents need a Professional to handle their fiscal affairs.

Please do not hesitate to contact us if you need fiscal advice.

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Tell us about the rental income

You must inform Sovereign on a monthly basis of the clients staying in your property so that we can issue your receipts online at the tax department. We need names, country of residence, dates of stay and rental amount.

AL LICENCE

Remember if you rent out your property for short term lets, you **MUST** by law, have an AL licence which is obtainable from your local council offices. The AL licence number must be shown on all advertising for the property. Sovereign can assist with local applications.

If you sell your house remember to cancel your AL licence directly at your local council (Câmara) or ensure it is transferred to the new owners.



INFORM FINANÇAS IF YOU NO LONGER LIVE IN PORTUGAL

You have sold your Portuguese property and returned to live in your home country believing that your ties to Portugal were concluded.

But did you remember to inform the Portuguese Tax office of your change of address?

Whether you sell for a profit or a loss you must submit a final tax return to the Portuguese tax department to declare the sale of your property. Failure to do so leads to the tax department automatically logging a tax return based only on the purchase and sale prices as detailed on the deeds. No expenses for improvements on the property will be taken into account.

Mr Smith sold his house and left Portugal believing that he had taken care of everything. However he did not inform the tax department of his forwarding address.

Two years later he received a notification sent by HM Customs informing him that he owed over 20,000 euros in capital gains tax. He did not tell the tax department that he was no longer resident in Portugal and so correspondence had continued to be sent to his Portugal address. He also was not aware that he had to submit a final tax return here. This bill came as a shock and by then it was too late to appeal.....

Before you leave Portugal make sure your tax department registration is changed and talk to Sovereign regarding your last tax return to be submitted in Portugal. Do not get a nasty surprise. The tax department will pursue debts in your home country!!

DO YOU HAVE A PORTUGUESE WILL?

New legislation regarding inheritance has been passed by Brussels to synchronize the applicable law in EU member states. This will apply to deaths occurring after 17th August 2015.

Previously in Portugal the nationality of the deceased dictated the law but from now on the applicable law will be one of "habitual residence" at the time of death unless the deceased clearly specifies in their will that they wish for the law of their nationality to take precedence over the new Succession regulations. Portuguese law enforces provisions for some heirs such as children of the deceased and your will may be overruled due to these changes.

It is strongly advisable that you have a Portuguese will to cover your Portuguese assets and you should contact your lawyer to ensure it states your choice to follow the law of your nationality. Although the UK, Ireland and Denmark have opted out of the new regulations it still has implications for anyone with assets in Portugal or those who are resident here.

GOLDEN VISA CONTROLS TIGHTENED AFTER ARRESTS

Following an investigation into the country's "golden-visa" program which highlighted allegations of corruption and money laundering which led to the resignation of a minister and several high profile arrests, Portugal has now tightened controls over residence permits issued to non-European property investors. With other countries offering similar schemes it would be foolhardy of Portugal to give up the program and potentially lose massive investments into Portugal.

The Golden Residency program allows non-EU citizens to obtain a Schengen visa and temporary residency which will give them free movement within Europe. Applicants must invest at least 500,000 euros in real estate or create a business venture in Portugal that provides employment to at least 10 people. Most applications have come from Chinese investors with the program already attracting 1.27 billion euros of investment over the last two years.

The incentive is also extendible to the candidate's immediate family members and taking up tax domicile can allow for zero tax on foreign passive income and pensions for a period of 10 years.

The residence permit is valid for a period of one year and can be subsequently renewed every two years, as long as the necessary requirements for the concession are still maintained. After 5 years, permanent residency status may be granted and after 6 years of residency it is possible to apply for Portuguese nationality provided that all the conditions for that purpose are met. Once a Portuguese national and thereby a fully-fledged European citizen, it is possible to live and work freely anywhere in Europe. Sovereign can assist you with the above. Contact us for more details.

NEW IRS REGULATIONS FOR RESIDENTS

To take advantage of additional tax concessions, resident individuals should ask for faturas (invoices) with their fiscal number and name throughout the year for all goods and services until they reach 714.00 euros per person.

There are three categories of invoices that allow for deductions on your IRS:-

- Health bills – 15% (in most cases a maximum of 1,000); individuals with a small income can have a bit more;
- 35% of any bill until 714.00 = 250.00; (a couple can deduct 500.00 euros)
- 15% of VAT bills with hairdresser, restaurant and car repairs up to 250.00.

Make sure you keep the bills in case the tax department asks to see your file!!

PROTECTING OUR CLIENT'S ASSETS

At Sovereign, we appreciate that our clients require not only expert advice on tax planning, wealth creation and asset management, but are also seeking the best possible insurance protection for their assets in the event of any loss or damage arising to their property, contents and valuables.

That is why we work closely with our colleagues at Sovereign Insurance Services, specialists in providing bespoke insurance programs for our clients. Their experience and expertise has meant they have forged strong relationships with leading global insurers, thereby giving our clients the ability to protect not only their properties in Portugal but also combine cover with other homes they may own, all under the one insurance policy.

This policy is not only generous in its coverage but Sovereign Insurance Services can also help to provide a complimentary survey of your home, ensuring it and the contents within are insured on the correct basis, giving you complete peace of mind. And of course, when you need it most, they provide a sympathetic and flexible approach to handling your claim in the event of your property suffering loss or damage.

In addition to insuring our clients homes, Sovereign Insurance Services also provide access to a wide range of insurance products, including cover for yachts, cars and businesses, liabilities and private healthcare cover for individuals, families and corporate plans.

A large number of our clients have already benefited from their services so if you would like a private consultation, or wish to obtain an obligation-free quotation, please contact our colleague Neil Entwistle:

Telephone: +350 200 52908

Email: nentwistle@sovereigngroup.com

Website: www.sis.qi

PROPERTY VALUATIONS

Over the last few years we have successfully submitted requests to the tax department for the revaluation of the tax value of clients' properties in order to reduce their annual IMI bills.

Property tax values are based on a series of co-efficient including size, quality and location and the tax department are currently reviewing the co-efficient for location because of the slow property market over the last couple of years. These changes should lead to lower tax values and therefore reduce the IMI bills.

Requests for reviews of property tax values can only be made every three years so if you have not taken advantage of the opportunity to submit a request for a revaluation, contact us to see how much you may save on your IMI bills.

COSTLY CAR IMPORTS

It continues to be very costly to import a car into Portugal and Portugal's lack of response to the European Commission request for it to bring the relevant legislation in line with European Union (EU) state aid rules and amend its registration tax rules for imported second-hand vehicles has now been referred to the European Court of Justice.

Portugal is in conflict with Article 110 of the Treaty on the Functioning of the European Union that states no member state shall impose, directly or indirectly, on the products of other member states any internal taxation in excess of that imposed on similar domestic products. For now Portugal appears to be happy to just keep raking in the tax and paying the fines for non compliance!

CHANGES TO THE PORTUGUESE PERSONAL TAX CODE

Changes, effective from 1st January 2015, make distributions from a "fiduciary structure" subject to a tax of 28% if paid to, or put at the disposal of, a Portuguese tax resident. The tax is applied over the whole distribution irrespective of whether the funds consist of capital or income. A fiduciary structure would embrace trusts, foundations, nominee arrangements and could also embrace, we believe, insurance based "tax wrappers". If the distribution is received from an institution based in a blacklisted jurisdiction the tax rate is aggravated to 35%.

In addition, when funds distributed by the trust are made to the original Settlor of the trust and are the result of the liquidation, revocation or termination of the trust, if the distribution or refund exceeds the value of the assets that were originally settled to the trust fund when it was established, a tax on the gain at the rate of 28% will be levied. This again will be increased to 35% when the trust is located in a tax haven.

In cases where the recipient is a third party (i.e. not the Settlor) it will suffer a stamp duty of 10% if, and only if, the asset or right acquired is situated in Portuguese territory at the acquisition date and no stamp duty exemption is available.

Whilst trusts can remain a valuable tax planning tool for Portuguese resident clients, this change effectively makes trusts intended to make distributions to residents ineffective.

PORTUGUESE TAX RESIDENCY RULES

As from January 1st 2015 an individual is regarded as resident in Portugal for tax purposes, in the year to which the income relates, if:-

He/she spends more than 183 days – continuously or not – in the country within a 12-month period, which could span two calendar years;

or

He/she spends less than 183 days in the country, but has, at any time during the referred 12-month period, accommodation available to him/her in Portugal which can be regarded as a place of habitual residence.

If either one of the above criteria is met, an individual will be regarded as resident starting from the first day of his presence in Portugal until his departure. It should be noted that for these purposes any day – whether a complete day or a partial day – that includes sleeping in Portugal is considered as a day of presence in Portuguese territory. Contact Sovereign for fiscal advice before you register at the tax department!

Sovereign - Consultoria Lda

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The Sovereign Group has been advising resident and non-resident clients on all matters relating to property ownership in Portugal for many years. Sovereign - Consultoria Lda first established an office in Portugal in 1999 specifically to offer tax advice to its clients. With our full complement of bi-lingual personnel, we are able to keep up to date with the ever-changing fiscal demands placed on property owners. Our regular contact with the local Tax Departments and reputation for prompt, quality service has enabled us to establish good relationships with lawyers all over Portugal, who trust Sovereign to resolve fiscal matters for their clients. We ensure that confidentiality is applied to all our work and that our fees remain competitive. Do not hesitate to contact us should you need any fiscal advice.

Meet the Portugal Office

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Sovereign Group Services

The first Sovereign office opened in Gibraltar in 1987 but we now have offices or agents in all the major offshore & onshore jurisdictions. Traditionally, our main business has been the setting up and management of offshore and onshore companies and trusts to assist with tax planning and asset protection. Now our range of services has expanded so we offer a wide range of services, some of which are below.

Sovereign Asset Management Providing advice and management on investment related matters, specific to client needs. Contact Richard Foster
rfoster@SovereignGroup.com

Sovereign Alternative Focusing exclusively on issues that directly affect alternative lifestyles. For further information visit www.SovereignAlternative.com

Sovereign Insurance Services General and life insurance intermediary. Geoff Trew at gtrew@SovereignGroup.com or Sofia Agripino on sagripino@SovereignGroup.com

Register an Aircraft.com An efficient and professional worldwide aircraft registration service at competitive prices. Visit www.RegisteranAircraft.com

Register a Yacht.com An efficient and professional worldwide yacht registration service at competitive prices. Visit www.RegisteraYacht.com

The Sovereign Art Foundation A visual arts prize, to give recognition to some of the most important artists of our time.
www.sovereignartfoundation.com

Visit our web site on www.SovereignGroup.com for more information on any of the above!

Whilst every effort has been made to ensure that the details contained herein are correct and up-to-date, this information does not constitute legal or other professional advice. We do not accept any responsibility, legal or otherwise, for any error or omission.

Remember to keep us informed of any changes of address and contact details

PLEASE ENSURE THAT ALL OUR INVOICES ARE PAID ON TIME TO ENSURE CONTINUITY OF OUR SERVICES. WE ARE UNABLE TO SETTLE YOUR TAXES IF OUR INVOICES ARE OUTSTANDING.