

TOURISM RENTALS – DECLARATION OF RENTAL INCOME

You may not be aware that a new law was published in Portugal on 29 August which obliges owners of Portuguese property to declare short term (tourist) letting income as a business activity rather than by way of a simple non-resident income declaration, as has often been the case until now.

This new law will become operative as from 27th November 2014 and includes some alterations to the Alojamento Local (AL) registration regime which requires any property owner who intends to let for short term tourist letting to register with the local council.

Reporting the income under the Simplified Regime, calculation of tax would be on the basis of turnover. The tax would be based on a fixed amount of profit equal to 15% of the rental income. A flat tax rate of 25% would apply to that profit giving a final tax rate of 3.75%.

It should be noted that this change in law creates a problem for offshore company held property as it is not possible for a non-resident company to opt for reporting under the Simplified Regime which can give a substantial reduction in the eventual tax payable on the income declared.

Sovereign – Consultoria Lda (“**SOVEREIGN**”) based in Lagoa, Algarve, already handles the reporting of letting income as Fiscal Representative for the clients of many villa managers and our suggestion is that a legal Portuguese agreement is executed between the company and the owner which would permit him/her to sub-let the property thus allowing the income to be declared by the individual rather than by the company. **SOVEREIGN** can assist with the agreement (Contrato do Comodato) and have negotiated a special rate with a local lawyer to draft this for signature by the owner and the Company Directors, or some person acting under a suitable power of attorney issued by them.

This way it is possible to take advantage of the new law and substantially reduce the tax payable. However it is not all good news as, whilst this means a reduction in tax payable, it also requires a disciplined and ongoing relationship between the property owner (or property agent), and **SOVEREIGN** in order to ensure compliance.

SOVEREIGN, with its staff of 14 including 4 qualified accountants working under the guidance of Finance Director, Joaquim Fava, is capable of providing full assistance in this process for an annual fee of 1,200 euros (plus vat @ 23%). This fee will cover the following services:

- Fiscal Representation;
- Tax Return preparation and filing;
- Online invoicing and monthly reports compliance;
- Accounts & book keeping;

In addition a once only fee of 180 euros (plus vat @ 23%) is payable in respect of initial registration of your activity with the tax department.

Registration takes time and needs to be effected before the end of 2014 and thus we recommend that any of your clients who may need this assistance make contact with us as soon as possible to proceed.

For more information please contact:

Sovereign – Consultoria Lda
Parque Empresarial Algarve
Lagoa 8400-431 Algarve
port@SovereignGroup.com

Tel: +351 282 340480
Fax: + 351 282 342259

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