

## Welcome to our 16<sup>th</sup> 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 Sovereign Group services.

## Paying taxes by Direct Debit to the Tax Authority

It is now possible to set up a Direct Debit to pay your taxes directly to the Tax Authority. This is applicable only to the following taxes: IMI; IRS and the car tax (IUC).

You can set up a one off payment or ongoing payments and the application can only be made using the tax office website.

It is required that your IBAN and SWIFT/BIC code is reported to the tax authority by inserting the information in the website.

This procedure is new so we will have to wait and see if it is effective!

Sovereign can assist clients wishing to set up these direct debits with the tax department. We will charge 25€ for this service to cover time spent.

## New changes for individual tax payers registered under the “Alojamento Local” Touristic business

The unexpected boom of new businesses registered under the AL law for touristic lettings, brought the attention of the Government to this activity sector and therefore the rules keep changing year after year.

Whilst in 2015 & 2016, individual non-residents of Portugal, registered under the so called “Simplified Regime” were taxed on 15% of the lettings, resulting in a final rate of 3.75%, in the 2017 tax year, this % of the taxable income increased to 35% of the lettings, resulting in a final tax rate of 8.75%.

The 2018 Government’s Budget once again changed this percentage but it only affects tax payers with lettings above 27,360 euros. In

these cases the taxable income can reach the maximum of 50% of the lettings, being the final rate between the 8.75% and 12.5%.

In order to reduce this higher taxation to the 35% level, it is possible for the deduction of 15% of certain allowable expenses related with the letting business and also 4% of the rateable value of the property being rented.

For those with incomes below 27,360 euros the taxable amount rate remains the same (35%) as in 2017.



## Capital Gains liability under the “Alojamento Local” Touristic Business

For clients registered as having Category B rental income activity, the 2018 Government’s Budget has clarified that Capital gains may be payable upon the cessation of the activity by the individual as the property is treated as having been transferred to a business. However this capital gain tax liability will be frozen until the property is actually sold or the AL touristic business is cancelled, even without selling, in which case it is assumed to be transferred back to private ownership.

There will be two separate Capital Gains to be calculated

- 1) One is based on the difference between the initial acquisition price and the market value or rateable value before the property is transferred to the business.

The transfer value accepted by the Tax Authority is the Rateable Value (Valor Patrimonial) for tax purposes. A different market value would require a valuation of the property to be made by a properly licenced external agency such as a Real Estate Agency.

The tax rate for non-resident individuals is 28% on the gain.

- 2) The other Capital Gain, is calculated according to the business activity rules and it is based on the difference between the sale / the transfer back to private, less expenses with sale (such as the real estate commissions) and the transfer to business value deducted by the minimum wear and tear rate.

Under the business rules only 95% of the gain is taxable at a rate of 25% for non-resident tax payers.

However, this second capital gain can be waived if the property continues to be rented under a long term rental agreement (category F), properly registered at the Tax Department website.

Once the property stops being rented for good, the first Capital gains, that was frozen, will be due even if the property is not sold.

# Moving your property company to Portugal. Is it A Golden Goose or A Poisoned Chalice?

Much has been written about the changes in legislation affecting non-resident, "offshore" property holding companies and I would be the first to agree that things ain't what they used to be! As the M.D. of one of the leading companies in Portugal advising on the set up and management of offshore companies, I could easily be accused of bias but I have always tried to give an objective and impartial view to clients when offering advice and hope to continue in that vein in this brief article.

Firstly, it is fair to point out that there is no bar to holding a property in Portugal by way of a non-resident company if that is the choice of the ultimate owner and there may be many reasons to do so, other than legitimate tax avoidance.

It has been suggested that it is wise to transfer the jurisdiction of an offshore property holding company to Portugal and some articles have promised all manner of wonderful tax and other advantages in doing so but is it so wise in reality and what tangible advantages does it give you over simply "staying put"? The Comparison Chart attached shows the situation fairly clearly and may help clarify some of the unanswered questions in the articles that have been written.

It is very important to take sound and impartial advice on the pro's and cons before such a move is made, not only due to the cost involved, but to make sure your decision will be the correct one in the long term and I suggest that interested parties would do well to run the idea by an experienced lawyer before taking the plunge.

COMPANY OWNERSHIP		COMPARISON CHART	
	QUESTION	PORTUGAL	MALTA OR DELAWARE
1	Annual cost to maintain the structure	CIRCA 2,600 Euros	Malta CIRCA 2,600 Euros Delaware CIRCA 1750 USD
2	Is the company beneficial ownership revealed?	YES	YES
3	What are the accounting requirements?	Organised accounts are required, included in above annual fees	Organised accounts are necessary in Malta and are included in above fees Organised accounts are not required in Delaware nor in Portugal.
4	Does capital gains tax apply on a transfer of shares ?	Yes at a rate of 28% applied on half of the gain	Yes, the sale of shares or the beneficial interest is subject to capital gains tax in Portugal at the rate of 28% on the gain made.
5	Does capital gains tax apply on a sale of the assets held?	Yes - at a rate of up to 21%. In addition, Capital Gains Tax would apply to the shareholders on the distribution of the assets to them following termination of the company	Yes at a rate of 25% of gain made payable within 30 days
6	Does increasing the value of the asset on the Balance Sheet of the Company before it moves to Portugal help with a later Capital Gain?	Not Applicable	NO - the Tax Department will always only consider the Escritura value or the Tax Department value
7	What annual taxes are payable?	Municipal property tax at the normal rate (this includes IMI and additional IMI)	Municipal property tax at the normal rate (this includes IMI and additional IMI)
8	Is IMT applicable on Transfer of shares?	Yes except in some cases see footnote	NO
9	Are any other taxes applicable on transfer of shares	Stamp duty see footnote	NO
10	Are Social Security contributions monthly payments required?	YES, for the director, based on the minimum wage. An exemption can be applied if some requirements are met	Not Applicable

Re: 8 & 9: IMT could only be avoided on the acquisition of shares if made by two unrelated persons 50/50. A Single holder, a holder of >75%, married couples or permanent partners would all pay IMT and Stamp Duty at a rate of up to 6,8%.



# Students Prize Algarve 2018 Winners!



Algarve Student Prize 2018 1st prize winner, Yalda Abbasi and her painting *Dance of Life*.



Top: Algarve Student Prize 2018 2nd prize winner, Lucas Angelo and his painting *Mother*.



Bottom: Algarve Student Prize 2018 public vote winner, Joana Dias Esteves and her painting *The Smile of Wisdom*.

The final prize giving and auction for this year's Student Prize run by Sovereign – Consultoria Lda in Lagoa on behalf of the Sovereign Art Foundation took place last weekend in the Lady in Red – Galeria de Arte in Lagoa. Guests and visitors who had never before visited the gallery were astonished at its sheer size, the remarkable artwork displays and the scale of the event sponsored and set up by gallery owners Peter and Liz Roberts and their professional team. Dave and Alyson Sheldrake offered their photographic services and deserving of a special mention were the students undertaking a catering course at the Dr<sup>a</sup> Laura Ayres School in Quarteira as they prepared and served a range of canapes and drinks throughout the day in a proficient and professional manner.

The 1st prize winner of 750€ was Yalda Abbasi with her painting *Dance of Life* winning also for her school, Escola Secundária João de Deus in Faro €1,500.

Lucas Angelo Thinon Pereira won the 2nd Prize of €500 with his painting *Mother* and won €1,000 for his school Escola Secundária Gil Eanes in Lagos.

The third prize of €300 which was voted as the public favourite went to Joana Dias Esteves with *The Smile of Wisdom*. Her school, Escola Secundária de Vila Real de Santo António won €500.

The auction of the twenty finalists artwork raised a total of €1,665 which will be divided by the artists themselves and The Rotary Clube de Silves who are raising funds for the building of a Sensory room in Casa do Povo in Messines. Rotary member and artist David Trubshaw and artist Gudrun Bartels run workshops for children and students of all ages in the Algarve schools and produced a book of their work entitled *Art & Poetry* which also features the twenty finalists from the Student Prize. The full proceeds from the book acquisitions will go to the Casa do Povo project and copies can be obtained from the Rotary Club, Sovereign in Lagoa or the Lady in Red gallery.

Sovereign – Consultoria Lda are proud to have organised this initiative to help and promote young artists of the Algarve and are grateful to Open Media for their help in the promotion of this Prize and thank all sponsors for their support.

Different members of staff have different responsibilities so you may be contacted by any one of us. The majority of our contact is via email and therefore we request that you ensure that Sovereign emails are accepted by your spam programs. The tax department often only gives ten days for clients to reply to their notifications and therefore we need to be sure that you are easily contactable. Please keep us updated on any address or contact changes.

Andreia Vieira - Managing Director  
Nigel Anteney-Hoare – Director  
Cristina Xavier - Assistant to the Directors  
Marina Dutra - Head Accountant - clients  
Isobel Costa - Head of fiscal representations  
Laura Lourenço - Head Accountant - internal accounts  
Sonia Duarte - Accountant  
Sónia Bispo – Accountant  
Bruno Vieira – Accounts Assistant  
Andreia Pereira – Accounts Assistant  
Monica Gonçalves - Credit control  
Amélia Jacinto - Administrative assistant - IMI's and related correspondence  
Julia Alves – Receptionist

Sovereign - Consultoria Lda is part of the worldwide Sovereign Group.

Visit [www.SovereignGroup.com](http://www.SovereignGroup.com) for more information on consultancy on tax planning structures using companies and trusts.

Whatever the nature of your enquiry, contact Sovereign by telephone, fax or email. We will assist you to maximise the benefits and minimise the liabilities from your investment in Portugal.

**Sovereign - Consultoria Lda**

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