Europe's best kept secret
Individual Taxation

Why Portugal should be your top tax choice

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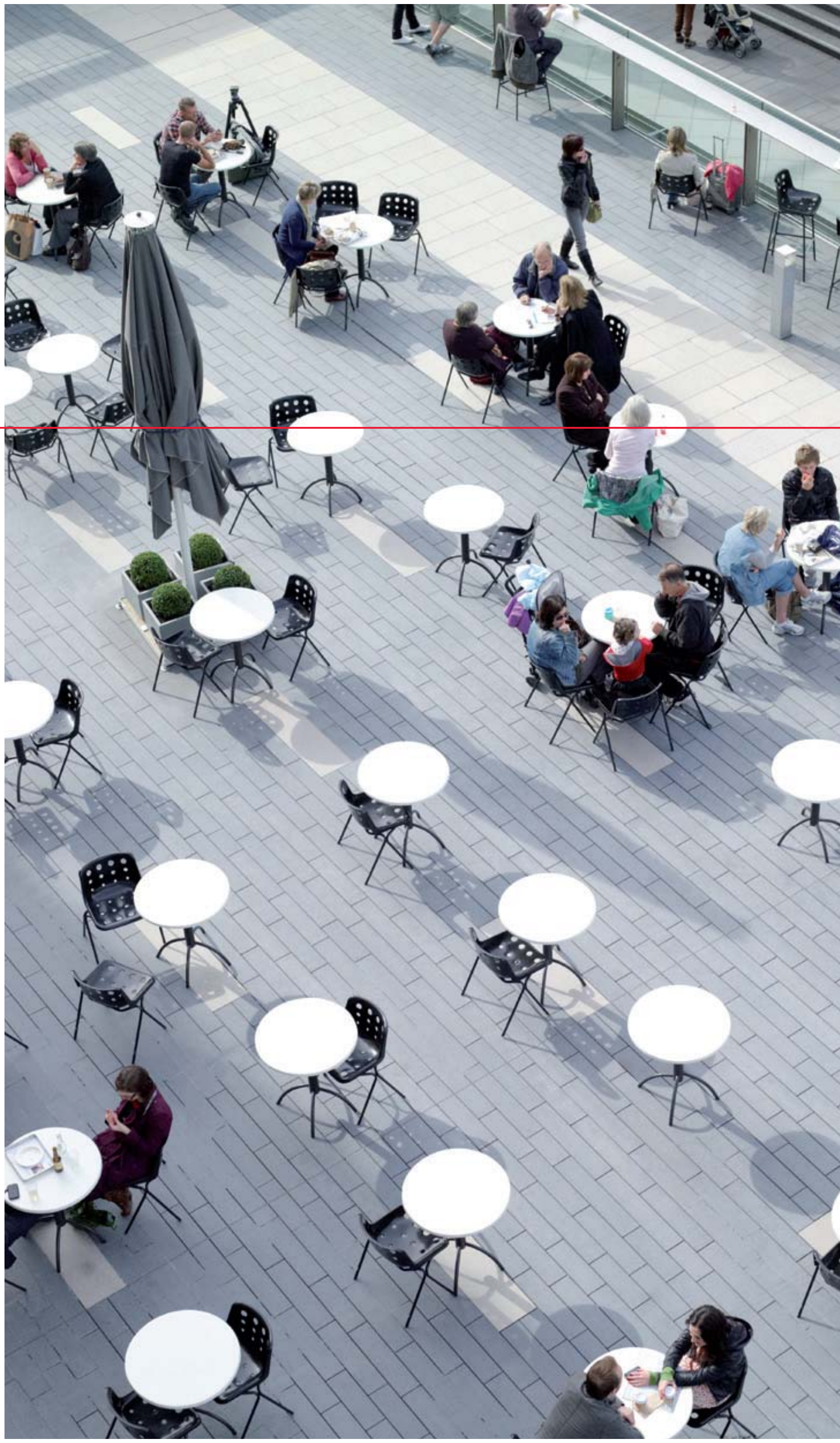


Portugal is part of the European Union, the Euro Zone and the Schengen area. With a stable political and social environment, a secure society, a highly skilled and English fluent labour force and an excellent quality of life, Portugal offers a favourable investment climate. The country is investing in becoming a premium tourism and real estate location, as well as one of the leading EU countries for R&D and new technologies.

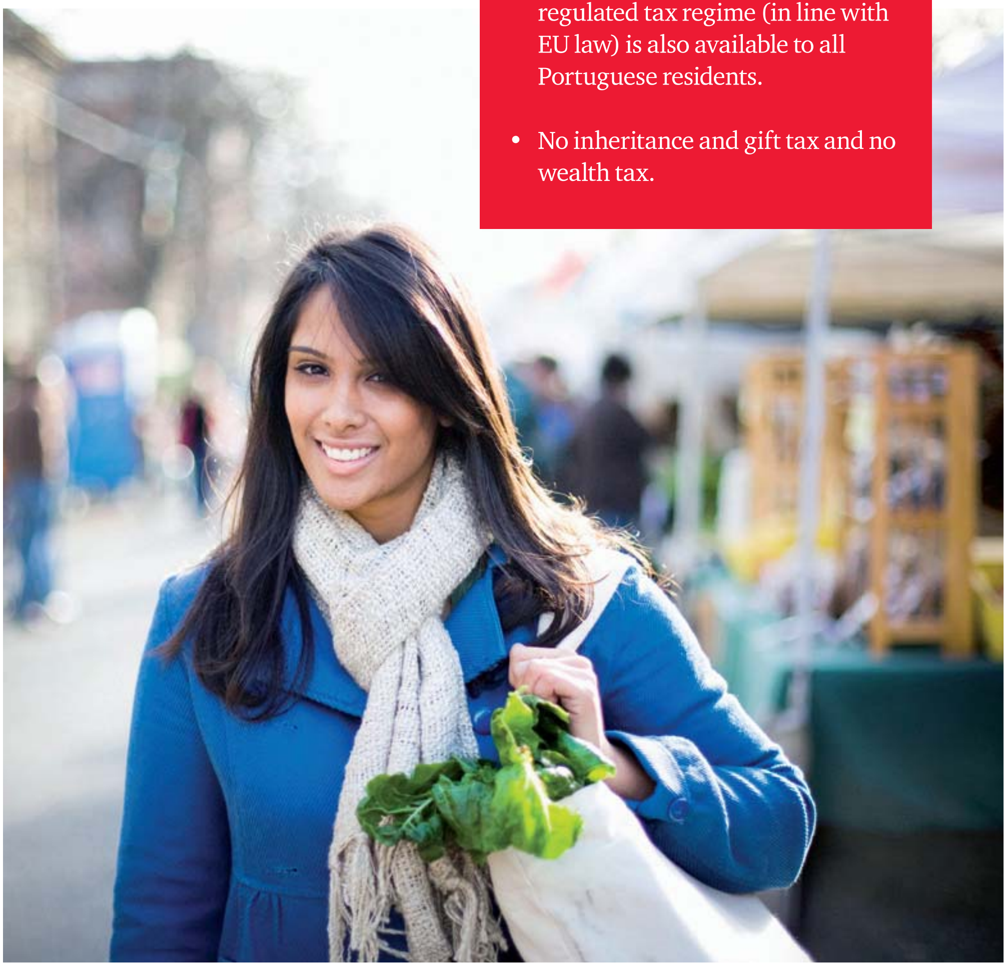
Portugal provides an excellent quality of life for the modern investor or businessman. The tax regime for individuals is very attractive, surpassing other regimes in many ways. The low effective tax burden, further enhanced by the regime for non habitual residents, the free remittance of funds, the friendly residence permit regime (allowing for free movement within the Schengen zone) and the possibility to apply for Portuguese nationality and, consequently, a EU passport, make Portugal a very attractive location. As a result of its traditional liberalism and multicultural approach, Portugal maintains very close links with the rest of the world, including Africa (Angola, Mozambique and Cape Verde), Asia (China, including Macao) and South America (Brazil).

It is not a surprise that Portugal is becoming a top choice for Ultra and High Net Worth Individuals who wish to take up residence in the European Union.

The special tax regime for non habitual tax residents, with a flat income tax rate of 20% for certain Portuguese employment and self-employment source income further increases the attractiveness of Portugal and shows the Portuguese commitment to attract the best international talent, as well as wealthy individuals and their families.

The Portuguese tax system offers interesting opportunities in relation to wealth, gift and inheritance taxes as well as business and rental income, capital gains, dividends, interest and pensions. Wealthy individuals and their families, whether of Portuguese nationality or not, should look closely at what Portugal has to offer for the planning of their income and wealth, as well as for a successful transmission to the next generation.

- Reduced or deferred taxation on dividends and other investment income, if not exempt under the non habitual resident regime.
- The Autonomous Region of Madeira preferential but fully regulated tax regime (in line with EU law) is also available to all Portuguese residents.
- No inheritance and gift tax and no wealth tax.



Examples of Portuguese beneficial tax regimes, include:

1. Since 2009 there has been a 20% flat rate for certain Portuguese-source income (employment and self-employment income), and an exemption for almost all foreign source income, available to non habitual residents.

2. A tax exemption for gifts or inheritances to spouse, descendants or ascendants. Inheritance or gifts to other individuals will be either not taxable, due to the generous territoriality rules, or subject to a flat 10% stamp tax rate.

3. No wealth tax and free remittance of funds either to Portugal or abroad. Nil taxation on dividends with proper planning or otherwise a 28% flat tax rate will apply. Tax credit for international double taxation may be available.

4. Beneficial tax treatment for pensions and other life insurance products (including unit linked) may further significantly reduce the effective tax burden on capital invested.

5. Companies licensed to operate in the Madeira International Business Centre (MIBC), including branches of non-resident entities, with a licensed issued until 31 December 2014, benefit from a 5% CIT rate until 31 December 2020.

6. The reduced CIT rate applies on income derived from transactions with non-residents (or with other MIBC entities), limited to thresholds of taxable income and depending on the creation of jobs. The MIBC special tax regime also provides for generous benefits regarding withholding taxes on interest, royalties and services.

7. Portuguese companies may take advantage of EU non discrimination rules and EU Directives on mergers, dividends, interest and royalties, as well of Portuguese double tax treaties.

8. Portugal has signed more than 60 double tax treaties, including with Malta, Macao and Hong Kong, as well as more than 50 investment protection agreements. It has more than 15 tax information exchange agreements signed (most of which are already in force) e.g., Bermudas, Cayman and Guernsey, and several social security agreements, offering interesting opportunities in a tax friendly environment.

Beneficial tax treatment for pensions and other life insurance products (including unit linked) may further significantly reduce the effective tax burden on capital invested.

The information in this leaflet is based on the tax legislation in force at 1 July 2014. However, the information is general in nature and therefore we recommend that you seek professional advice before making any decision in this area.

Tax regime for non habitual residents

In 2009 Portugal introduced a beneficial voluntary Personal Income Tax (PIT) regime for non habitual residents aiming to attract talent in high value added activities and Ultra and High Net Worth Individuals (UHNWI's) and their families to Portugal.

This regime aims to boost Portuguese competitiveness both in R&D and new technologies and other listed high value added sectors. UHNWI's and their families may also benefit, as it is often more advantageous than other similar regimes.

The new regime is available to all individuals becoming tax resident in Portugal (if they were not Portuguese tax residents in the previous 5 years), and the status is granted for a period of 10 consecutive years.

To be considered as a tax resident, the individual should remain for more than 183 days in Portugal during the relevant fiscal year or have a dwelling in Portugal at 31 December of that year with the intention to hold it as his or her habitual residence.

Non habitual residents will be subject to a reduced 20% PIT rate both on salaries and business and professional income of a Portuguese source arising from high added value activities of a scientific, artistic or technical nature.

Non habitual residents will be exempt from PIT on salaries of a non Portuguese source if such salaries were subject to tax in the country of source under an existing Double Tax Treaty or, if no Tax Treaty exists, were subject to tax in another jurisdiction and are not considered as Portuguese source income under domestic rules.

Business and professional income of a non Portuguese source relating to high added value services of a scientific, artistic or technical nature, as well as from intellectual or industrial property or industrial, commercial or scientific information, earned by non habitual residents abroad are exempt from PIT provided such fees could have been taxed under an existing Double Tax Treaty or could have been taxed in another non black listed jurisdiction in accordance with the provisions of the OECD.

Rental income, investment income and capital gains of a non Portuguese source obtained by non habitual residents are also PIT exempt, provided the above mentioned conditions are met.

Pensions paid abroad to non habitual residents are also PIT exempt if such pensions were subject to tax under an existing Double Tax Treaty or if the pension should not be considered as obtained in Portugal and related contributions did not allow a PIT deduction in Portugal.

In conclusion, under the non habitual residents tax regime, MNC's will have a major advantage in placing their centres of excellence in Portugal, for example their R&D departments, and Portuguese companies will have a significant stimulus to attract the best talent.

Furthermore, by becoming Portuguese non habitual residents, the UHNWI's are able to accrue their wealth in a white listed friendly tax environment, to dispose of their assets benefiting from tax exemptions, to pass on their wealth or estate without inheritance or gift taxes and/or to enjoy their retirement without tax leakage on their pensions.

A white listed friendly tax environment in the European Union.

Tax regime for non-habitual residents

living in Portugal

Competitive advantages:

- For a period of 10 years, taxation related to IRS (personal income tax) on labour income in Portugal is at a fixed rate of 20%
- No double taxation for pensions or for employment and self-employment income obtained abroad

How can you acquire Non-Habitual Resident Status?

1. Having not been a resident in Portugal for the last 5 years;
2. Register at the local tax office as a tax resident in Portugal (to do so you must have remained in Portugal for more than 183 consecutive or non-consecutive days, or having remained for less time, having, at 31st December of that year, a home in such conditions that would lead to the assumption that it is intended to be kept and occupied as your habitual residence);
3. Request that the status of Non-Habitual Resident be attributed at the time of registering as a tax resident in Portugal, or by 31st March of the year following that in which you become a resident in Portugal.

Once Non-Habitual Resident Status has been obtained, what is the taxation rate and incidence applicable to domestic source income?

In the case of employment or self-employment, **the applicable taxation rate is 20%** (with an additional 3.5% surcharge in 2015).

Taxation applies to income derived from high added value activities of a scientific, artistic or technical nature:

- Architects, engineers and similar
- Fine artists, actors and musicians
- Auditors
- Doctors and dentists, teachers and psychologists
- Liberal professions, technicians and similar
- Senior managers
- Investors, directors and managers, when part of companies covered by the contractual regime provided for in the Investment Tax Code.

Registration as a Non-Habitual Resident confers the right to be taxed as such for a period of 10 years as from the year of registering as a tax resident in Portuguese territory.

Once Non-Habitual Resident Status has been obtained, in which cases is foreign income obtained by Non-Habitual Residents in Portugal exempt from taxation?

In the case of pensioners and retired people when:

- Income is taxed in the source State, in accordance with the convention to eliminate double taxation, signed by Portugal and that State; or
- Income is not considered to have been obtained through a Portuguese source, according to the criteria provided for in the IRS Code (personal income tax).

In the case of income derived from employment, when:

- Income is taxed in the State of origin, in accordance with the convention to eliminate double taxation, signed by Portugal and that State; or
- That income is taxed in another State with which Portugal has not signed any convention to eliminate double taxation, as long as the income is not considered to have been obtained in Portuguese territory, in accordance with the criteria in article 18 of the IRS Code (personal income tax);

In the case of income from self-employment (through the provision of services of a high added value, of a scientific, artistic or technical nature, or through intellectual or industrial property, investment income, rental income, capital gains income or other increases in equity), **when**:

- The income may be taxed in the source country, territory or region, in accordance with the convention to eliminate double taxation, or;
- When no convention to eliminate double taxation has been signed, the OECD model convention may be applied (taking into consideration the observations and reservations made by Portugal) and as long as the source country, territory or region does not have a privileged tax regime, and as long as the income is not considered to have been obtained in Portuguese territory, in accordance with the criteria in article 18 of the IRS (personal income tax).

THIS INFORMATION IS NOT INTENDED TO BE A SUBSTITUTE FOR CONSULTING THE APPLICABLE LEGISLATION