

LATEST UPDATE ON THE NON-HABITUAL RESIDENT ('NHR') TAXATION FRAMEWORK AND OTHER ALTERNATIVES FOR PEOPLE WHO WISH TO RELOCATE TO PORTUGAL

1. IS THE NHR FRAMEWORK GOING TO END AND WHEN?

The Portuguese Prime Minister held a town hall meeting in the beginning of October to discuss different subjects including the housing issues in Portugal and expressed the intention to put an end to the commonly known "Non-Habitual Resident" taxation regime ('NHR Regime'), which is a special taxation regime that grants tax benefits to non-residents that move to Portugal.

On October 10th, 2024, the Draft State Budget Law was published, and it foresees the end of the NHR Regime from January 1st, 2024. This means that those who (i) acquire tax residency in Portugal or (ii) hold a Portuguese residence permit until December 31st, 2023 can still apply for the NHR Program.

The Draft State Budget Law will be open to discussion at the Portuguese Parliament in the coming weeks and we expect to have a final draft law by the end of November 2023.

2. WHAT ARE THE PRACTICAL EFFECTS WITH THE TERMINATION OF THE NHR FRAMEWORK?

Please check the following scenarios:

| STATUS OF THE APPLICANT | EFFECTS AND/OR IMPLICATIONS |
|---|---|
| NHR status already granted | No implications. The NHR Regime will still be in force for the 10-year period previously approved for each applicant. |
| NHR status obtained before the new Budget law comes into force | No implications. The NHR Regime will still be in force for the 10-year period. |
| Applications already submitted but not granted before the new law comes into force | For those who (i) acquire the tax residency in Portugal or (ii) are granted with a Portuguese residence permit until 31 December 2023, the deadline to request the NHR Regime is 31 March 2024. Applications submitted until 31 March 2024 will be valid and the NHR Regime will be applicable accordingly. |
| Obtaining the tax residence or the Portuguese residence permit during 2024 | NHR Regime will not be available. |

3. PRACTICAL ISSUES RELATED TO THE CURRENT NHR BEING REQUESTED UNTIL THE END OF 2023

Any individual who wants to be eligible for the NHR Regime must move his tax residency to Portugal before December 31st, 2023 and submit the NHR application as soon as possible.

4. NEW SIMILAR TAX INCENTIVES AVAILABLE UNDER THE 2024 DRAFT STATE BUDGET LAW

I. Employees/Contractors/Freelancers

According to the 2024 Draft State Budget Law, individuals that wish to relocate to Portugal, who have not resided in Portugal in the previous 5 years and move to Portugal between 1 January 2024 and 31 December 2026 are entitled to benefit from a 50% deduction on the taxable income, up to a maximum of Euro250,000 for a period of 5 consecutive years.

In this case the standard progressive rates will apply on the remaining taxable income. Foreign source income may also be subject to tax in Portugal.

For contractors and freelancers, additional deductions to the taxable income may be available during the first and second year.

Those who benefit from the NHR Regime are precluded from this tax incentive.

II. Scientific Research and Innovation

According to the 2024 Draft State Budget Law, a new special taxation regime will be available for 10 years. This will apply to those who have not resided in Portugal in the previous 5 years.

This regime is limited to:

- (a) University professionals and scientific research;
- (b) Income paid by companies with contractual tax benefits for productive investment projects (investments above 3M€, namely industry, tourism, agriculture and R&D); and
- (c) Income paid by companies under the R&D tax incentive system (SIFIDE) to people with a PhD.

Under this new tax regime, foreign sources of income will be exempted (except pensions) and a flat rate of 20% will apply on employment and self-employment income. Those who benefit from the NHR or opted for the 50% exclusion regime are precluded from this tax benefit.

5. OTHER AVAILABLE REGIMES FOR TAX RESIDENTS IN PORTUGAL

The Portuguese Personal Income Tax Code provides an attractive and more beneficial regime for income generated through life insurance or pension funds.

MdME

Regular investment income is taxable at a flat tax rate of 28%. However, the following portions of income generated by premiums, sums or contributions paid by a life insurance or pension fund during the first half of the respective contractual term representing at least 35% of the entire insurance/fund are exempt from taxation:

- (a) 20% of the income if the redemption, advance or other forms of anticipation or maturity occurs between the fifth and eight years of the term of the contract (effective rate of 22,4%); or
- (b) 60% of the income, after the first 8 years of the contract (effective rate of 11,2%).

Other efficient taxation arrangements can be assessed on a case-by-case basis.

Should you need any further advice, please do not hesitate to contact us.

OUR CONTRIBUTORS

Private Client Team



Tirso Olazábal
Partner
[Biography](#)



Ana Pinto Moraes
Counsel
[Biography](#)