Portugal's new Non-Habitual Resident (NHR) 2.0 tax scheme

What it means for Irish expats and investors

Portugal has introduced a new Non-Habitual Resident (NHR) 2.0 scheme, which may offer significant tax benefits for Irish individuals who become tax resident in the country. This new scheme, which replaces the original NHR regime, is designed to attract highly skilled professionals and business owners but with some key changes.

What was the original NHR scheme?

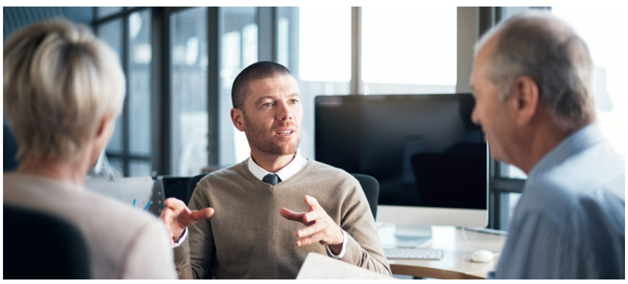
Introduced in 2009, the original NHR programme offered tax incentives for foreign residents, including:

- A special 20% tax rate on income from certain high-value professions.
- Exemptions on foreign-sourced income, such as dividends, interest and capital gains, where taxation in the country of source was provided for under the relevant double tax treaty.
- A flat 10% tax on foreign pensions.
- A 10-year eligibility period for qualifying individuals.

This scheme proved attractive to many Irish retirees and professionals, but in 2024, Portugal abolished it, replacing it with a revised programme.

How does NHR 2.0 work?

The new NHR 2.0 scheme still offers valuable tax breaks but is now more focused on attracting highly skilled professionals in areas like research, science, technology and innovation.



Key features of NHR 2.0

- A 20% flat tax rate on Portuguese employment and self-employment income arising from eligible activities covered by NHR 2.0.
- Near-total exemption on foreign-sourced income, including dividends, interest, capital gains and rental income.
- Pension income no longer qualifies, making it less appealing for retirees.
- Still applies for 10 years after registering as a Portuguese tax resident.

Who benefits most from the new scheme?

While excluding pension income may be disappointing for some, business owners, entrepreneurs and investors stand to gain significantly.

- Dividend income from an Irish business may be tax-free or nearly tax-free.
- Portuguese employment income arising from eligible activities covered by NHR 2.0 may be taxed at a flat rate of 20%.
- Capital gains tax on the sale of a business can be reduced to almost zero with proper planning.

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NHR 2.0 could provide a tax-friendly exit strategy

NHR 2.0 could offer a considerable tax advantage for business owners planning a future exit. By using a holding company as the sale vehicle and structuring the deal correctly, it may be possible to avoid or minimise capital gains tax – provided they have left Ireland and become tax resident in Portugal for a certain number of years.

Key considerations: Timing & residency rules

Becoming a Portuguese tax resident isn't as simple as just moving there. There are strict residency and qualification requirements, including:

- Not having been a tax resident in Portugal for the past five years.
- Having the right to live in Portugal (via EU citizenship or certain visa programmes).
- Owning or leasing a suitable home in Portugal by 31 December of the qualifying year.
    - Short-term rentals (eg Airbnb) do not qualify.
- Spending at least 183 days per year in Portugal or maintaining a permanent home as a habitual residence.

Why professional advice is essential

Relocating to Portugal for tax purposes requires careful planning.

- The timing of residency changes can have significant tax implications.
- Business owners must structure their assets properly to maximise benefits.
- Meeting NHR 2.0 eligibility rules is crucial to avoid unexpected tax liabilities.

In conclusion

Portugal's new tax regime remains highly attractive for Irish business owners and investors, despite removing pension tax breaks. If structured correctly, the low tax rates on foreign income, dividends and capital gains could provide major financial advantages.

However, switching tax residence is complex and missteps can be costly. Those considering a move should seek expert tax advice to ensure they qualify and make the most of the new regime.

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