



Holiday / Short Term Letting

The Portuguese authorities have taken a number of measures to integrate casual and temporary lettings into the formal economy, and ensure that income derived from these lettings falls within the tax system. These measures include a simplified licensing scheme, hefty fines for those carrying on informal lettings on an unlicensed basis and reduced tax formalities and taxation on income derived from temporary and casual lettings.

The formalities for licensing is now at municipal level rather than with the tourism authorities. Minimum conditions still apply with which the entrepreneur is obliged to comply. Fines for non compliance can reach up to €3,740.98, if the business is run by an individual and in the case of corporate ownership, the fines can range between €25,000 and €35,000.

On the taxation formalities, if the turnover is less than €200,000, then use may be made of the so called simplified regime. The 'simplified' tax regime is a 'forfeit' scheme in that only sales need to be recorded for income tax purposes i.e. a simplified sales register of invoices is sufficient. Saying that, if the turnover exceeds €10,000 per annum, then the business is subject to VAT returns, and in that case, if the taxpayer wishes to deduct VAT incurred, then expenses and VAT paid need to be recorded as well. The VAT rate applicable to 'hotel accommodation' currently is 6%.

For lettings on a short term basis, the 'forfeit' scheme has recently been adjusted, but it is still a favourable scheme. The scheme now provides for a deduction of 65% of the turnover to be deducted. Therefore 35% is subject to income tax. For non resident individuals, the income tax payable is considered to be from a 'business' and is subject to tax at a rate of 25%.

To illustrate an example, if the income received from short term lettings is €20,000 then 35% is subject to income tax, that is €7,000 and then the rate applicable to non residents of 25%, giving a tax bill of €1,750.

The authorities, in case of an inspection of a property which is occupied / rented out, will check whether the property is duly licensed under the 'alojamento local' scheme, or else a properly taxed rental agreement has been entered into.

Besides the tax formalities, there are other legal formalities as well – guest details need to be reported to SEF (border control authority), statistical returns may be required, as well as Social Security contributions (should the income as determined above exceed approximately €2,500 per annum, and the person does not qualify for exemption from contributing into the social security system).

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