Taxation of Investment Income in Portugal: Local, International, and Blacklisted Jurisdictions

Portugal's tax system treats **investment income**—such as interest, dividends, and capital gains—differently depending on the source of the income, whether it's local or international, and whether it's from a **blacklisted jurisdiction**. Additionally, the **Non-Habitual Resident (NHR) tax regime** can offer specific tax advantages on foreign income, but there are conditions and limitations. Below, we break down how various types of investment income are taxed in Portugal, including the tax implications for investment income from **blacklisted jurisdictions** and the impact of the NHR status.

1. Taxation of Investment Income in Portugal

In Portugal, investment income is generally taxed under the category of **"investment income"** or **"capital income"**. This includes:

- **Interest income** (from savings accounts, bonds, etc.)
- **Dividend income** (from stocks or shares)
- **Capital gains** (from the sale of investments, such as stocks or real estate)

2. Tax Rates for Local Investment Income

Interest Income

Interest income earned from domestic sources (e.g., Portuguese savings accounts, bonds, and loans) is typically taxed at a **flat rate** of **28%**. However, if the taxpayer opts to include interest income in their **annual tax return** (i.e., as part of their total income), it may be taxed at their **marginal tax rate** instead.

Dividend Income

Dividends received from Portuguese companies are also subject to a **flat tax rate of 28%**. However, there is a **participation exemption** for certain dividends if the taxpayer holds at least **10%** of the capital in a company for more than one year. In this case, dividends may be exempt from taxation or taxed at a reduced rate.

Capital Gains

Capital gains from the sale of securities (such as stocks, bonds, and other financial assets) in Portugal are taxed at **28%** for residents. Similar to interest and dividends, you may also opt to include your capital gains in your **annual tax return** and pay tax at your **marginal rate** if that is more beneficial.

3. Taxation of International Investment Income

Portugal taxes foreign investment income similarly to domestic income. However, there are several nuances when it comes to international sources.

Foreign Interest Income

Interest income from foreign sources, such as foreign savings accounts or bonds, is generally taxed at **28%**. You may also opt to include foreign interest income in your annual tax return, where it could be taxed at the **progressive tax rates** (ranging from 14.5% to 48%), depending on your total income.

Foreign Dividend Income

Dividends from foreign companies are typically taxed at **28%**. However, Portugal has signed **double taxation treaties (DTTs)** with many countries. If you have paid taxes on dividends in the country where the income originated, you may be eligible for a **foreign tax credit** to avoid double taxation. The amount of credit depends on the treaty and the taxes already paid in the source country.

Foreign Capital Gains

Capital gains from foreign investments, such as the sale of foreign stocks or property, are generally taxed at **28%** in Portugal, just like capital gains from domestic investments. However, if you are a **Non-Habitual Resident (NHR)**, the tax treatment may differ (see below).

4. Impact of NHR (Non-Habitual Resident) Tax Regime on Investment Income

The **Non-Habitual Resident (NHR)** tax regime is a special tax status in Portugal designed to attract foreign professionals and retirees. One of the key benefits of the NHR regime is the preferential tax treatment of foreign income, including certain types of investment income.

NHR Tax Benefits on Foreign Investment Income

Under the NHR regime, **foreign-sourced income** may be subject to **reduced taxation** or **exempt from taxation** under certain conditions:

- **Foreign dividends**: If the foreign dividends are derived from a country with which Portugal has a **double taxation treaty** (DTT), they may be exempt from Portuguese tax under the NHR regime. This is provided that the foreign tax paid is at least **25%** of the amount of the income. In some cases, dividends from certain jurisdictions might be **fully exempt** from Portuguese taxation under the NHR status.
- **Foreign interest**: Interest income from foreign sources may be **exempt** from tax in Portugal under the NHR regime, provided the income is taxed in the source country, and Portugal has a **double taxation agreement** with that country.
- **Foreign capital gains**: Capital gains from the sale of foreign assets are **generally exempt** from tax under the NHR regime if those assets are sold in countries that are **not considered tax havens**. However, capital gains from foreign property sales might be subject to tax depending on the jurisdiction of the property and whether Portugal has a DTT with the country where the property is located.

Types of Foreign Income That Are Exempt Under NHR:

- **Dividends** and **interest** may be **exempt** from tax if the income is from a **tax treaty country** and is taxed at source.

- **Capital gains** from assets located in countries with which Portugal has a **tax treaty** may also be exempt.

However, it's important to note that **passive income** such as dividends and interest may be **taxable** at the regular **28% flat rate** for residents if the income comes from **non-treaty countries** or jurisdictions that are considered **blacklisted** (i.e., **tax havens**).

5. Blacklisted Jurisdictions and Their Impact on Investment Income

Certain jurisdictions are considered **blacklisted** by Portugal and are often referred to as **tax havens**. These jurisdictions have tax systems that provide little to no tax on certain types of income, which could result in **unfair tax competition**. **Blacklisted jurisdictions** often include countries like **Panama**, **Monaco**, **Bermuda**, and **the Cayman Islands**.

Investment Income from Blacklisted Jurisdictions

When investment income (e.g., dividends, interest, capital gains) comes from a **blacklisted jurisdiction**, Portugal may subject that income to **higher taxation** or impose specific reporting requirements. The tax rate may be as high as **35%** on income from blacklisted countries, depending on the specific circumstances.

- **Dividends** from blacklisted jurisdictions may not benefit from the usual exemptions available under the NHR regime. As a result, they may be subject to tax at the **flat rate of 35%**.
- **Interest income** from tax havens may also be subject to **higher withholding taxes**.
- **Capital gains** from the sale of assets in blacklisted countries could be taxed at the standard **28%**, or more, depending on how the income is structured and whether the relevant income is subject to a **double taxation agreement**.

6. Reporting Requirements for Foreign Investment Income

Regardless of whether the income comes from a **blacklisted jurisdiction** or a country with a **double taxation treaty**, foreign investment income must be reported to the Portuguese tax authorities. Failure to disclose foreign income can result in fines or penalties.

If you are a **Non-Habitual Resident (NHR)**, the income is still required to be reported, even if it is exempt from tax. However, the NHR status might allow you to benefit from **exemption** or **reduced tax rates** depending on the type of income and the jurisdiction of origin.

Conclusion

In Portugal, investment income—whether from local or international sources—is subject to **taxation** with a **flat tax rate** of 28% for most types of income. However, the **Non-Habitual Resident (NHR) regime** offers potential tax exemptions or reductions on foreign investment income, provided certain conditions are met. Income from **blacklisted jurisdictions**, however, may face **higher tax rates** and stricter reporting requirements.

It is essential for foreign nationals, particularly those considering the **NHR status**, to consult with a Portuguese tax advisor to fully understand how **investment income** will be taxed, especially if it comes from countries with which Portugal has **no tax treaty** or jurisdictions considered to be **tax havens**. By doing so, you can ensure that you benefit from the most favorable tax treatment and avoid potential penalties.