

## Portugal – Expatriate Tax Regime Ended; New Tax Incentive for Scientific Research and Innovation

Significant changes have been introduced in Portugal in the past few months that impact global-mobility policies, notably the termination of Portugal's expatriate tax regime known as “the non-habitual resident's (NHR) special tax regime” (*regime fiscal do Residente Não Habitual*).<sup>1</sup> This regime previously provided tax incentives to inbounds, such as exemptions on income from foreign sources, alongside a 20-percent flat-tax rate applied to employment or self-employment income derived from high-value-added activities defined in the tax law.

Another change to Portugal's tax system is the introduction of the “Tax Incentive for Scientific Research and Innovation” (*Incentivo fiscal à investigação científica e inovação*, IFICI), which aims to attract and retain highly-qualified professionals in the fields of scientific research, investment, and business development.<sup>2</sup> IFICI offers similar tax incentives to those previously provided by the NHR.

### WHY THIS MATTERS

The end of the NHR special tax regime may significantly impact global-mobility policies for companies operating in Portugal. This regime, with its substantial tax benefits, had long been an appealing tool for attracting foreign professionals. Its repeal could affect the attractiveness of Portugal as a preferred location for overseas assignments, particularly for senior executives, specialists, and other high-value-add employees who were major beneficiaries of the flat 20-percent tax rate.

However, the introduction of IFICI represents a pivotal development for companies within the technology, science, and research sectors, as well as for companies with programmes for research and innovation and that benefit from specific tax incentives. It is designed to bolster Portugal's appeal for companies looking to relocate highly-skilled professionals to the country and those engaged in technology advancement, scientific research, and business development. In basic terms, it offers tax incentives similar to those previously granted by the NHR, including a 20-percent flat-tax rate on employment or self-employment activities within such sectors, along with tax exemptions on certain categories of foreign income.

Despite the end of the NHR regime, the introduction of IFICI demonstrates a recognition of the importance of attracting and retaining skilled professionals in Portugal. This new regime, however, targets more specific sectors compared to the wider beneficiary base of the NHR.

## Tax Incentive for Scientific Research and Innovation

### General Rules

Under the terms set by law, the IFICI incentive covers researchers and highly-qualified workers who:

1. become tax residents in Portugal;
2. have not been deemed as such in the previous five years;
3. receive income resulting from specific activities foreseen in the law, such as academic careers in higher education and scientific research, qualified positions in the research and development fields, and workers with a PhD in the research and development fields; and,
4. perform their duties in entities specified in the law, such as technology and innovation centres, companies that benefit from specific tax incentives as per the tax legislation, industrial and service companies exporting at least 50 percent of their turnover, have roles within start-up companies, and others.

If the above criteria are met, the taxable employment income and business or professional income arising from the referred specific activities may benefit from a special tax rate of 20 percent for a 10-year period, and will apply during that 10-year period for any portion of a year that the taxpayer is considered a tax resident of Portugal. The 10-year period commences in the year when the beneficiary registers as a resident for tax purposes herein.

Additionally, it is foreseen that taxpayers who do not benefit from this special regime according to the described terms in one or more years of the 10-year period can benefit from it in any of the remaining years of that period, starting from the year in which they again regain residency in Portugal.

The rules provide for the following:

1. An exemption of tax in Portugal is available for foreign-source income (employment income, business and professional income, investment income, rental income, and capital gains) that is received by the taxpayers covered by this incentive. However, this exemption is an exemption with progression, and as such, the exempt income will be added in for the purpose of determining the marginal rates applicable to any other income received that is subject to taxation at such rates.
2. An increased rate of 35 percent is applicable whenever the income received under this regime arises from a tax haven.

Lastly, individuals who benefit (or have benefited) from the NHR special regime, as well as those who chose to be taxed under the regime applicable to “former residents” (*ex-residentes*), are excluded from the above-described tax regime.

### Issuance of Ministerial Decree No. 352/2024/1

On 23 December 2024, Ministerial Decree No. 352/2024/1 was issued. It regulates the IFICI, and thereby establishes:

- the procedures for registration under this regime applicable to taxpayers residing in Portuguese territory whose activities may be covered by the IFICI.
- the list of highly-qualified professions and relevant company's CAEs<sup>3</sup>, which are relevant for cases (set in law) in which registrations should be filed with the Portuguese tax authorities.

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Additionally, the Ministerial Decree establishes that taxpayers registered as residents in Portuguese territory should submit their registration requests for the application of this regime by 15 January of the year following the one in which they become residents, using an official form (model of which still to be made available by the Ministry of Finance). The entity with which the taxpayer must register will depend on the professional activity performed.

However, a transitional regime is provided, allowing taxpayers who became residents in Portuguese territory in 2024 to register under this regime until 15 March 2025.

Nonetheless, in cases where the registration is completed after such deadline, the taxation under the IFICI takes effect from the year in which the registration is completed and lasts for the remaining period of the 10 years (counted from the year when the individual became a tax resident of Portugal).

The Ministerial Decree entered into force the day after its publication and applies to taxpayers who became tax residents in Portuguese territory from 1 January 2024 onwards.

## KPMG INSIGHTS

While the NHR special tax regime has come to an end, Portugal is seeking to uphold its commitment to cultivating an environment appealing to skilled professionals. The introduction of the IFICI incentive appears to emphasise this commitment, with the offer of attractive tax benefits, although the benefit is more directly targeted to particular sectors.

The end of the NHR may cause some confusion and a change to the tax position (or plans) of many expatriate employees. Employers and/or their expatriate employees with concerns about their tax positions, how they may need to revise assignment policies, and their tax obligations, and questions about how to avail of the new IFICI regime, should consult with their qualified tax professionals or a member of the GMS team with KPMG in Portugal (see the Contacts section).

### FOOTNOTES:

1 To access the relevant legislation (in Portuguese), please refer to the below links.

[Lei n.º 82/2023, de 29 de dezembro](#) – which implements IFICI and revokes the NHR.

[Portaria n.º 352/2024/1, de 23 de dezembro](#) – which regulates the IFICI incentive.

2 Ibid.

3 *Códigos das Actividades Económicas* (Economical Activities' Codes).

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**The information contained in this newsletter was submitted by the KPMG International member firm in Portugal.**

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