NHR: transition or the end of an era?

Portugal faces challenges in regulating the new tax regime for non-habitual residents and loses competitiveness in the European landscape

by glória paiva

«A multinational considering opening a headquarters in Portugal needs to know if the country's tax framework is efficient»

Leonardo Marques dos Santos

A year ago, *Iberian Lawyer* published a report (click to read) on Portugal's special tax regime for Non-Habitual Residents (NHR). At the time, the program was entering what we described as a new chapter marked by uncertainty. There was speculation that it might signal the end of a successful initiative that, over 13 years, boosted investment and competitiveness by offering a range of tax benefits to "non-habitual" residents—those who had not lived in Portugal for the five years prior to applying for the status, including both expatriate Portuguese nationals and foreigners.

The program's primary goal was to attract skilled professionals to the country. However, the regime was repealed in early 2024, leading to a transitional phase with access possible until March 31, 2025, and the introduction of a new framework referred to as NHR 2.0. Despite NHR 2.0 being technically in effect, its final regulations are still pending. Consequently, it is likely that another year will end with fundamental questions left unanswered.

POLITICAL PRESSURE AND THE END OF THE NHR

Under political pressure, the government terminated the NHR regime, citing concerns over tax inequalities, real estate speculation, and high costs for the country, while critics questioned the regime's long-term sustainability. However, the lack of regulation for NHR 2.0 and fiscal uncertainty for non-residents are generating significant doubts. According to **Leonardo Marques dos Santos**, a partner in the tax law department at Miranda & Associados, it is urgent to establish clear procedures for accessing the regime and to define the eligible profiles. "The transitional regime is legally in place and operational, but it is not properly regulated, particularly regarding the application process, the activities companies are expected to develop, and which professions will qualify as highly skilled", Santos explains.

As a result, the NHR is effectively partially inactive, creating considerable uncertainty among potential residents interested in relocating to Portugal. "For foreign pensioners,

«With the end of the regime and the absence of clear regulation, Portugal is missing opportunities»

Alexandra Courela

Portugal has ceased to be attractive due to the significantly high tax burden on pensions", says **Alexandra Courela**, partner and co-coordinator of the tax law practice at Abreu Advogados. Personal income tax (IRS) rates can reach 48%, compounded by an additional 5% solidarity surcharge. According to Courela, this situation may also impact the dynamics of expatriate communities in Portugal, which have contributed to the economy and cultural diversity.

Moreover, the end of the regime reduces fiscal appeal, slows the real estate market, and may negatively impact investment profitability, Courela adds. For foreign companies, legislative uncertainty complicates strategic decisions, such as establishing headquarters or defining compensation structures. "For the business community, this is a matter of great importance. Over nearly 15 years, the NHR enabled companies with subsidiaries in Portugal to benefit from the regime", Santos notes. "A multinational considering opening a headquarters in Portugal needs to know if the country's tax framework is efficient", he exemplifies.

FISCAL COMPETITIVENESS: A RED OCEAN IN EUROPE

Europe's fiscal competitiveness amplifies Portugal's disadvantage compared to broader and more stable regimes in countries like Spain and Italy. "With the end of the NHR regime and the absence of clear regulation, Portugal is missing opportunities to capitalize on legislative changes in other countries to attract talent and human capital", notes Courela. As a result, investors and individuals are increasingly directing their investments and establishing residency in more competitive destinations.

Furthermore, the RNH 2.0 regime is more restrictive in scope—its pool of potential beneficiaries, particularly regarding eligible activities, is significantly narrower compared to both the original regime and those in nearby countries. This, combined with the lack of regulation, "stands in stark contrast to the well-established regimes in countries like Spain and Italy, which, in addition to being extensively tested, offer greater predictability for those interested", observes Abreu's partner.

IMPACTS OF THE END OF THE NHR

FOR PENSIONERS:
- High tax burden, with IRS rates reaching 48%
- Impact on the dynamics of expatriate communities in Portugal
- Consequential effects on the economy and cultural diversity

FOR FOREIGN INVESTORS:
- Reduction in fiscal attractiveness
- Slowing of the real estate market
- Decrease in investment profitability

Source: Alexandra Courela, Abreu Advogados, interviewed for this article

«The NHR had a very positive impact, and I also view the new proposals positively»

Carla Matos

INCENTIVES FOR YOUNG PEOPLE AND SMES

In October, the government announced a series of economic stimulus measures in its 2025 State Budget proposal, prioritizing corporate taxation reduction, wage recovery, and increased purchasing power. Among these measures are the expansion of the IRS Jovem program and a reduction in IRC for SMEs. Additionally, the 2024 Budget introduced a scientific research and innovation incentive program (NHR 2.0), aimed at attracting foreign workers to Portugal. "These are, essentially, new programs to attract individuals, with a focus on foreign residents coming to Portugal to work", explains **Carla Matos**, partner and head of the private clients department at CCA Law Firm.

Over nearly 15 years, the RNH regime contributed to increased investment, consumption, real estate market renewal, and the creation of new businesses, Matos recalls. "It was a very positive outcome, and I view the new proposals positively as well", she states. However, according to Matos, there is a need to include a currently overlooked profile—namely, expatriates or foreign individuals moving to Portugal to live and invest in other ways, such as pensioners or those interested in real estate investments.

Now, the government is expected to regulate NHR 2.0 and define eligible activities by the end of the year, in a context where fiscal competitiveness is critical to attracting investments and talent. "The most desirable outcome is for this regime to regain its competitiveness. Legislative instability is detrimental to both businesses and individuals", concludes Santos.