

TAX NOTICE - Portugal

If the Policyholder's country of tax residence is Portugal

FEBRUARY 2025

The tax regime applicable to the Contract on the Date of conclusion of the Contract is the tax system of Portugal as the country of main and habitual residence of the Policyholder on the Date of conclusion of the Contract. The main characteristics of the tax regime applicable to the Contract on February 2025 are explained in this Note.

This information notes describes the main characteristics of the current Portuguese tax regime of life insurance and capitalisation policies taken out by an individual.

This document is namely designed to subscribers and beneficiaries who are resident in Portugal from a tax perspective. The Company strongly recommends to the Subscriber that, before taking out the Insurance policy and during the execution of the Contract, he/she should obtain advice from a qualified authorised tax adviser in order to understand perfectly the tax regime of the Contract and to obtain answers to questions about specific situations.

THE POLICYHOLDER'S ATTENTION IS DRAWN TO THE FACT THAT:

- the present Note gives only a general explanation of the main characteristics of the tax regime applicable to the Contract,
- the characteristics of the tax regime applicable to the Contract may change during the Contract,
- the information on the main characteristics of the tax regime for the Contract (i) are given subject to changes in the regulatory and legislative provisions in force and (ii) have no contractual value. This information is communicated purely as an informative guide, the Company strongly recommends that the Policyholder, before signing the insurance Proposal and during the execution of the Contract, obtains advice from a qualified and authorised tax adviser in order to have full knowledge of the tax regime for the Contract and to seek solutions to particular situations.

1. LIFE INSURANCE TAX TREATMENT

The Portuguese tax law does not provide with any specific obligation to communicate the investments in insurance products subscribed abroad.

Article 1 - Life insurance contract's tax treatment

Article 1.1 - Tax deductibility of premiums

Article 1.1.1 Premiums paid in cash

Under Portuguese tax legislation, life insurance expenses are only deductible for short-lived professions (e.g., sportsmen, miners, fishermen) and disabled individuals (disability of 60% or higher duly proved by a medical statement).

Both deductions are only applicable if the coverage guarantees exclusively death, physical invalidity or retirement benefit (article 27 and 87 of the Personal Income Tax Code – PIT Code).

For individuals who exercise a short-lived profession the premiums are deductible against their gross income up to EUR 2.612,50..

Please note that, in regards to the retirement benefit, the following requirements must also be met :

- The lifetime of the contract must be at least 5 years and;
- The benefit should be guaranteed after the policyholder has reached 55 years of age.

For disabled individuals, 25% of the premiums are tax deductible up to 15% of the individual's tax liability. However, in regard to premiums which cover retirement benefit the limit is 65 EUR/year (single policyholder) or 130 EUR/year (married policyholder).

Article 1.1.2 Premiums paid via in specie transfers

If premiums are paid via in specie transfers, the above-mentioned tax deduction may also be available provided that the coverage covers exclusively death, physical invalidity or retirement benefits.

Depending on the tax legislation in force, in specie transfers may be subject to capital gains or income tax.

Article 1.1.3 Premiums paid in shares

The fact that premiums are paid in the form of shares does not have any consequence on the tax treatment described in section 1.1.1 and 1.1.2.

Article 1.2 - Income tax treatment on partial withdrawals or total surrender

Article 1.2.1 Tax base

(i) Partial withdrawal or total surrender

The taxable income is given by the difference between the amount received and the premiums paid (Category E of the PIT – investment income).

The legislation does not discriminate between the income and the capital and, instead, relies on this simple formula to tax any excess of withdrawals over premiums (as such, in case of partial surrenders, the policyholder should have information on the capital and income components to determine the taxable income accordingly).

If at least 35% of the total premiums are paid in the first half of the contractual period ("front ended" policies), a partial exemption of taxation applies, as follows:

- 1/5 of the income is excluded from taxation if the payment or surrender occurs after 5 and before 8 years of the contractual period (only 80% of the income is taxable);
- 3/5 of the income is excluded from taxation if the payment or surrender occurs after 8 years of the contractual period (only 40% of the income is taxable).

If the life insurance contract has no fixed term, the above 35% rule has to be observed for the first half of the period running from the subscription date to the withdrawal date.

The endorsement of the contract to another policyholder does not attract any personal income taxation to the policyholder, as no provision in that way is contained in the PIT code.

(ii) Withdrawal in the form of annuities

In case the distribution occurs in the form of annuities (monthly/ periodic pension payments), the amounts received are taxable as pension income (Category H of the PIT).

An exclusion of taxation of the premium's component included in the annuities is applicable (whenever the amount of premiums included in the annuities is not identified, it is presumed that 85% of the annuity represents capital and, therefore, only 15% of the amounts withdrawn qualify as taxable income).

Pension income also benefits from a specific annual deduction against the taxable income in the amount of EUR 4.462,15.

Withdrawals, whether regular or not, that do not qualify as annuities, are subject to the rules identified above for partial withdrawals or total surrender.

Article 1.2.2 Tax rate

In case of surrender (full or partial), income derived from life insurance products is subject to autonomous taxation at 28%. However, the individual may opt to add such income to the remaining income in his personal income tax return, being subject to taxation on the aggregate income at marginal rates varying between 13% and 48% plus a solidarity surtax (according to the tax rates in force in January 2025).

A solidarity surtax of 2,5% and 5% is also due on taxable income subject to marginal tax rates exceeding EUR 80,000 and EUR 250.000, respectively (as per the rules in force in January 2025).

In case of withdrawal in the form of annuities, the income derived from life insurance products is deemed as pension income and subject to taxation at marginal rates varying between 13% and 48% plus the referred solidarity surtax (according to the tax rates in force in January 2025).

Article 1.2.3 Tax return

In case of a partial withdrawal or a total surrender, the income derived from life insurance products paid out by an entity not residing in Portugal will have to be included in the Annex J of the Portuguese personal income tax return.

However, should this income be paid out by a company residing in Portugal or a branch of a non-residing company operating in Portugal, it will be subject to a final withholding tax (28% according to the tax rates in force in January 2023) and, therefore, it should only be included in the personal income tax return if the taxpayer opts to add this income to the remaining income in his personal income tax return, in order to be subject to taxation on the aggregate income at marginal rates.

Should the distribution occur in the form of annuities, the pension income will, in all circumstances, have to be included in the Portuguese personal income tax return, and is subject to the above referred marginal rates.

Article 1.3 - Income tax treatment on switches

Switching between units occurring within a life insurance contract that remains unchanged is not a taxable event.

Article 1.4 - Income tax treatment on underlying investment yield

Article 1.4.1 Tax base

No taxation.

Article 1.4.2 Tax rate

N/A.

Article 1.5 - Tax regime of the life insurance part, in case of death of the life-assured

Article 1.5.1 Income tax treatment upon death

Life insurance benefits paid out upon death of the life-assured are not subject to taxation for the purposes of the individual income tax (article 12-1-b of the PIT code).

Article 1.5.2 Inheritance tax

Life insurance benefits are not subject to inheritance tax.

Article 1.6 - Tax regime of the additional death coverage

Article 1.6.1 Income tax treatment

Death insurance benefits paid out upon death of the insured person are not subject to taxation for the purposes of the individual income tax (article 12 1-b of the PIT Code).

Article 1.6.2 Inheritance tax

Death insurance benefits are not subject to inheritance tax.

Article 1.7 - Gift Tax

The assignment of the contract to another policyholder, is subject to gift tax, at the rate of 10%. An exemption is applicable to spouses, legal partners, ascendants and descendants in straight line.

Article 1.8 - Wealth tax

Non applicable.

Article 2 - Other tax obligations: Premium taxes

Life insurance products, for which the risk is located in Portugal, are subject to additional charges and indirect taxes, as follows:

Premium taxes:

- ASF (Insurance Supervisory Authority) Tax: 0,048% on the total amount of life insurance premiums. The value of this tax is charged as a fee to the client and then paid by the Company to the Portuguese supervisory.
- Stamp Tax: Life insurance premiums are exempt.
- INEM (National Institute for Medical Emergencies) Tax: 2,5% on the collected premiums (or 2,5% on the part of the premium related to the death risk coverage). Tax charged directly by Allianz to the client on behalf of INEM.

2. CAPITALIZATION CONTRACTS' (CAPITAL REDEMPTION OPERATIONS) TAX TREATMENT

The tax treatment of the capitalization contracts is the same as described above for the life insurance contracts, except regarding the following:

- a) No possibility of tax deduction;
- b) INEM tax: not applicable ;
- c) ASF Tax: 0,048% on the total amount of payments made by the subscriber. The value of this tax is charged as a fee to the client and then paid by the Company to the Portuguese supervisory ;
- d) Stamp duty: 4% on the management commissions charged by the insurance company.

3. THE NON-HABITUAL TAX RESIDENTS' REGIME

Article 3.1 - Previous Regime (applicable until 31/12/2023)

The Non-Habitual Tax Resident (NHR) regime was a special tax scheme designed to offer tax benefits to foreign nationals or Portuguese citizens returning to Portugal, provided they met certain criteria. This regime, which was revoked as of 31 December 2023, offered significant tax advantages, particularly for foreign-sourced income, such as capital income, pension income, and other specific earnings.

Individuals who registered as non-habitual residents before the cut-off date may continue to benefit from the original regime for up to 10 years, as initially provided.

The regime granted tax exemptions on foreign-sourced income, including capital income, rental income, and pensions, under certain conditions: if taxable in the source country under a Double Tax Treaty (DTT) or, in the absence of a DTT, under the OECD Model Tax Convention, provided it was not considered Portuguese-sourced income. For individuals who obtained Non-Habitual Resident (NHR) status until 2019 or registered as tax residents by March 31, 2020, pension income was exempt in Portugal if it was taxable in the source country under a DTT or not considered income obtained in Portugal. Those who qualified as NHRs after 2020 are subject to a 10% tax rate on foreign-sourced pension income.

Article 3.2 - The New Non-Habitual Residents' Regime (effective from the 1st of January 2024)

From 1 January 2024, the Non-Habitual Tax Residents 2.0 is now in effect. This new regime exclusively applies to individuals involved in scientific research and innovation.

Under this framework, a special 20% tax rate applies to net income from Category A (employment income) and Category B (business and professional income) earned within the scope of the specified activities, for a consecutive period of 10 years from the year of registration as a resident in Portugal.

Regarding passive income (Category E – investment income, Category F – rental income, and Category G – capital gains), the exemption method applies to foreign-sourced income, such as dividends, interest, and royalties, provided that such income is subject to taxation in the source country and that Portugal has a double tax treaty in place with that jurisdiction.

The taxation of foreign pensions has also been adjusted. Since 2020, a 10% tax rate has been applied to foreign pensions, and with the introduction of the new NHR regime, these pensions are now subject to general tax rates rather than the previous special regime.

4. PROFESSIONAL SECRECY APPLICABLE TO INSURANCE

The Company is required to comply with the rules relating to professional secrecy in force in the Grand Duchy of Luxembourg pursuant to Article 300 of the Law of 7 December 2015.

Thus, the information collected within the framework of the Contract must be kept secret under penalty of being exposed to the penalties provided for in Article 458 of the Luxembourg Criminal Code. On the basis of these provisions, the Company may only be authorised to communicate to any third party the confidential information that the Company holds under the Contract in accordance with an instruction of the person concerned.

However, the Company may be obliged by virtue of a law or international conventions to derogate from insurance secrecy and to have to communicate confidential information that it holds under the Contract in accordance with a formal instruction and thus, for example, according to the Double Taxation Treaties concluded by Luxembourg following the OECD standards, the tax authorities could be authorised to request information within the framework of the exchange of information.

Furthermore, in view of the professional secrecy requirements under Luxembourg law and in order to enable the Company to meet its other obligations under the tax regime applicable to the Contract, each:

- Policyholder, Insured (if different from the Policyholder(s)),
- Accepting Beneficiary during the term of the Policy,
- Beneficiary at the end in the event of the death of the Insured,

may be required by virtue of the applicable tax legislation to give express, special and irrevocable authorisation and mandate to the Company, (i) to make any tax declaration and any payment to the tax authorities authorised to receive such information and competent in application of the Contract, (ii) to communicate to the Beneficiary(ies) all the information required by the applicable tax regime, either directly or through a third party agent appointed by the Company.