



Tax & Business Lawyers

NEWSLETTER

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THE TAX MEASURES IN THE NEW PORTUGUESE GOVERNMENT'S PROGRAM

The purpose of this newsletter is to provide a summary of the main tax measures included in the program of the new (24th) Constitutional Government of Portugal.

Advisory Team



FOR THE PEOPLE

- Personal Income Tax (PIT) reduction of “marginal tax rates between 0.5 and 3 percentage points” compared to 2023, up to the 8th layer.
- PIT - A maximum rate of 15% applied to all young people up to 35 years of age, except for the highest income bracket.
- Doubling the PIT allocation to social institutions, from 0.5% to 1%.
- Exemption from “contributions and taxes” on performance bonuses, up to the limit equivalent of one month’s salary (“15th month”).
- Mandatory adjustment of tax brackets and withholding tax tables in line with inflation and productivity growth.
- Encourage savings through the creation of tax-free savings accounts”.
- Creation of a PIT deduction, for expenses incurred with media organizations.
- Allowing a deduction to PIT, of accommodation expenses for teachers who are transferred for more than 70 km from their place of residence.
- Reduction of VAT on baby food to the minimum tax rate (6%).
- Increase of the tax incentives for companies that hire people with disabilities above the legal quota.
- Gradual implementation of the “goal for the tax and social security systems to consider the number of children per family”, including tax benefits for large families.
- Strengthen tax incentives measures to increase the birth rate, including the self-employed.

FOR THE COMPANIES

- Amend two percentage points reduction of the corporate income tax rate from 21% to 15% over three years.
- Reduce the standalone taxation on company cars by 20%.
- Promote the gradual elimination of the progressivity of the state surcharge and the municipal surcharge, and, in the case of the latter, ensure compensation for the loss of revenue to municipalities through state budget allocations.

- Simplification of the CIT with the aim of "increasing the attractiveness of investment and economies of scale".
- Discuss the extension of the VAT cash accounting scheme (currently limited to EUR 500,000 turnover) with the European Commission.
- Creation of an exceptional and temporary regime for the elimination or reduction of the tax cost of construction or rehabilitation works on properties intended for permanent residence, regardless of their location in Urban Rehabilitation Areas (ARU), including, among others, the application of a reduced VAT rate to construction and rehabilitation works and services, as well as the increase of costs tax deductibility.
- Adoption of measures aimed at providing tax incentives to companies that create maternity and paternity support programs.
- Discussing the access of companies owned by venture capital to the qualification of small and medium enterprises (SMEs).
- Launching of the "Capitalization + Program" to support generational change and the enhancement of business assets, with four dimensions of intervention, including the continued strengthening of tax incentives for equity financing over debt financing, and the program aimed at economies of scale, mergers, acquisitions and asset recovery.
- Elimination of regulatory provisions that encourage companies to remain small, in line with the principle within corporate reorganizations and the concentration and merger of undertakings.
- Review the tax regime applicable to digital platforms and encourage its discussion at European level, where potential revenues used to stimulate demand for media content.
- Implement tax and administrative measures to facilitate the creation of a business-friendly ecosystem in the defense sector.

FOR REAL STATE

- Elimination of Property Transfer Tax (IMT) and stamp duty on the purchase of primary and permanent residences by young people up to the age of 35.

- Simplify property registration procedures, "combine notarial and tax registration" and "reduce transaction costs," especially for small rural properties.

FOR JUSTICE

- Reduce the cost of complying with tax obligations, significantly simplify the tax system, strengthen tax stability, and reformulate tax justice.
- Promote the reform of the tax Administration, improve the balance in the relationship with taxpayers and reduce the contextual costs associated with the tax function.
- Promote urgent measures for the administrative and tax jurisdiction, based on existing studies.
- Promote studies and debates on the advantages and disadvantages of unifying the common jurisdiction with the administrative and tax jurisdiction.
- Strengthen the cross-checking of data and the improvement of existing data tools, in particular regarding the coordination between the Tax Administration and the Social Security and complete the process of digitalization of social security services.
- Strengthen and simplify alternative dispute resolution procedures for small claims and large litigants to free up civil courts and ensure faster and more efficient justice.
- Promote legal assistance and free mediation for the defense of small taxpayers before the tax administration in cases of small tax debts or other levies and/or small tax enforcement actions.

FOR THE ENVIRONMENT

- Adopt measures related to green taxation, technological innovation, and behavioral psychology/economics (nudges) to act as a catalyst for improved performance in the waste sector.
- Promote the green tax reform, identifying new policies and approaches that contribute to more efficient and sustainable use of resources.

FOR THE INVESTMENT

- Elimination of the Extraordinary Contribution on Local Lodging, among other measures aimed at removing recently imposed restrictions on this activity.

- Creation of a "Pre-Investment Validation" regime to attract private investment, especially foreign investment, through a tax regime and incentives.

QUICK END NOTE

The new government's program includes several measures with tax implications, namely for the youth, families and businesses.

However, significant efforts should continue to be made to reduce public spending and, above all, to promote efficiency and good management in public services, such as the tax administration, social security, and in local municipalities (in particular, to end the unusual situation of appointment-based services in tax offices, which is now difficult to justify).

There should also be a timely review of whether all these taxes and other incentives, benefits or tax reductions now being programmed are not distorting the public accounts, including the reduction of our structural public debt (which continues to grow in absolute terms).

Moreover, it would be important to reform the tax justice, not in the proposed sense of unifying it with the common jurisdiction - which seems inappropriate and inconvenient - but in terms of simplifying and improving the defense mechanisms available to tax payers, the deadlines and other important aspects of the tax procedure and process, including the response time of the courts, definitively restoring the taxpayer to the forefront in this matter of guarantees.

The measures aimed at reducing the personal income taxation of young people seem appropriate (have pensioners been forgotten?), but it seems discriminatory that these latter measures are permanent measures, as if such problems could be solved by a tax panacea, when they are much deeper and more complex.

And the priority, especially at this stage, should also be on businesses and productivity, whether promoting mergers and acquisitions (tax shot?) or wages (wage shot?), a structural change in our business fabric (still mostly composed of micro, small and medium enterprises) and attracting investment and capital to Portugal, in order to improve the productivity of our economy and the well-being of the people living in Portugal.

Therefore, it will be interesting to see if this program, will be translated into concrete proposals for more legislation for a change to be approved by this Parliament and this Government in the future.

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