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State Budget 2011
Portugal

Summary of the key highlights of the Budget Act proposal

October 2010

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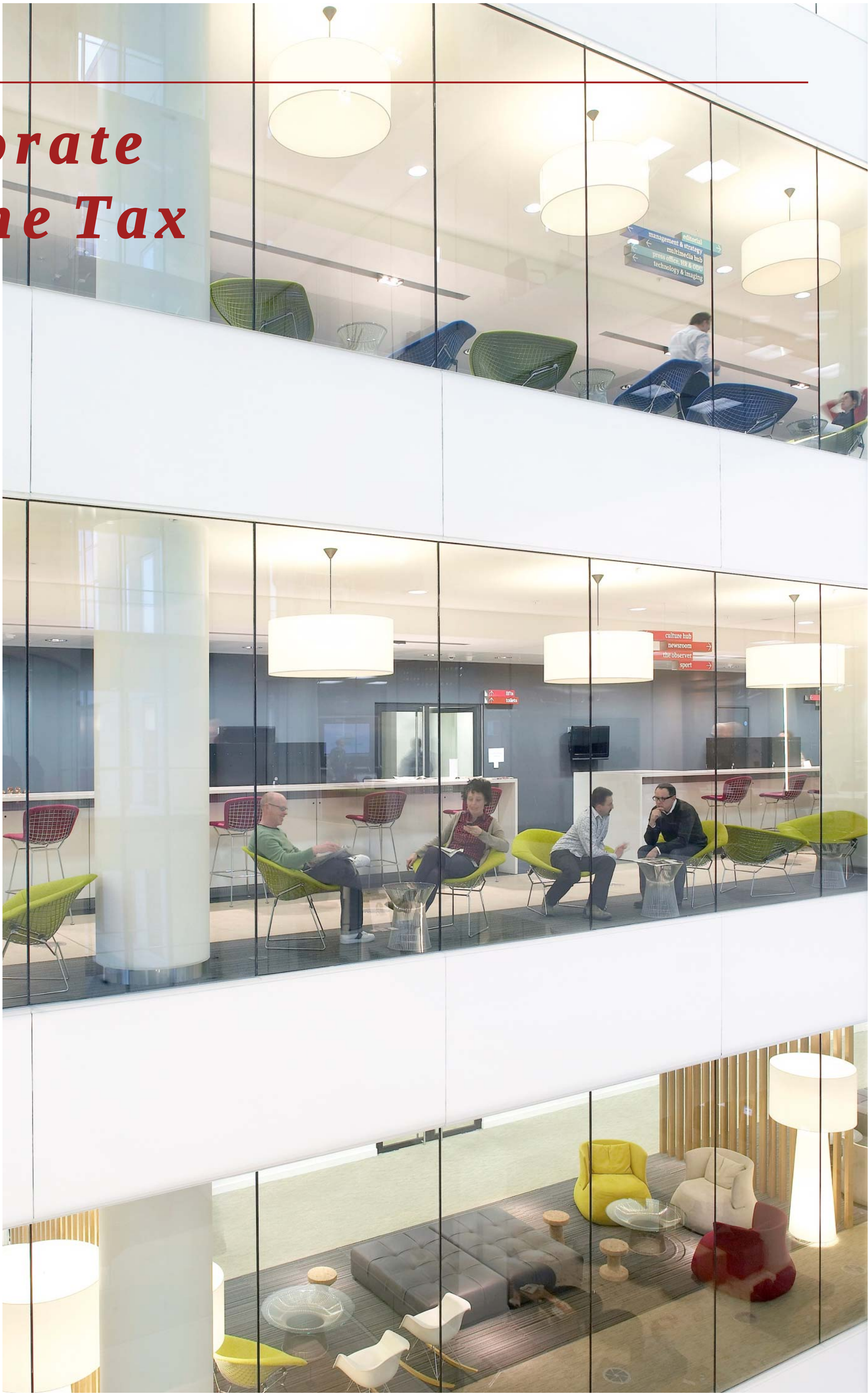
Corporate Income Tax



Economic double taxation

Dividends distributed to companies that are tax residents in the EU or the EEA may no longer be exempt from withholding tax in all situations where the participation held is below 10%, even if the acquisition value equals or exceeds Euro 20 million.

The partial tax deduction (50%) of profits received is no longer possible. The full deduction now depends on a minimum participation in the distributing company of 10%, even in the case of the acquisition value exceeding Euro 20 million. The 10% thresholds is now required for holding companies (“SGPS”), venture capital companies (“SCR”) and business angels (“ICR”).

Holding companies (“SGPS”) can no longer deduct profits received when such profits have not been subject to effective taxation in the hands of the distributing company.

Deductibility of capital losses

Capital losses and other losses related to shareholdings are no longer tax deductible to the extent that the reduction in value results from a tax-free distribution already made.

Reinvestment regime

The reduction of capital gains taxation will depend exclusively on a participation of, at least, 10% of the share capital, even if the acquisition value exceeds Euro 20 million.

Bad debts

Debts claimed through arbitration procedures may be considered as doubtful receivables for the computation of impairment losses.

Debts recognized by arbitration courts in the course of litigation resulting from the rendering of essential public services, as well as debts that are time-barred and do not exceed the amount of Euro 750 each, can be considered as bad debts.

Tax deductibility of bad debts will now depend on evidence that the debt annulment has been communicated to the debtor.

Tax rates

There is an increase to 21.5% (previously 20%) of the withholding tax rate applicable to capital income earned by non-residents, as well as to income earned as a member of the governing bodies of an entity.

Investment income paid or made available to accounts, which are opened in the name of one or more holders on behalf of non-identified third parties, shall be subject to a final withholding tax at a 30% rate, except in cases where the beneficial owner is identified.

There is an increase to 21.5% (previously 20%) of the tax rate applicable to income earned by resident entities that do not have main activities of a commercial, industrial or agricultural nature.

Additional tax rates

The beneficial tax rate of 5% for expenses incurred on light passenger vehicles with low CO2 emission levels will no longer apply. These expenses will be subject to the general (additional) taxation rules.

10% rate applicable to expenses incurred (regardless of their deductibility) on light passenger vehicles, with an acquisition value determined by Ministerial Order (2010 – Euros 40 000; 2011 – Euros 30 000; 2012 and after – Euros 25 000) and motorcycles, excluding vehicles that are solely powered by electrical energy.

20% rate applicable to expenses incurred (regardless of their deductibility) on light passenger vehicles with an acquisition value exceeding the amounts above.

All additional taxes have an aggravated 10 p.p. surcharge, if the taxpayer has tax losses in the same fiscal year.

Limitation of tax benefits/special tax regimes

The assessed amount of corporate income tax cannot be lower than 90% (previously 75%) of the amount that would have been assessed in the absence of tax benefits/special tax regimes, which are now listed by exception.

The tax benefit for the employment of youths will no longer be included in the calculation above.

Tax losses

The maintenance of tax losses carried forward in case of a tax neutral merger, demerger or asset contribution that determines a change of control of the company may be requested to the competent tax authority until the end of the month following the application to the Commercial Registrar (as is the case for requests due to changes in the corporate object or where there is a substantial change in the business activity).

The deduction of tax losses depends on a legal certification of the accounts issued by a statutory auditor according to a new Ministerial Order that will be published.

In the case of tax losses of the fiscal year immediately preceding the year in which a change occurred, which result in the end of the carry forward, and when that change also occurred prior to the end of the time limit for filing of the annual return, the request for the maintenance of such tax losses can be filed within 15 days after the end of the time limit for filing the tax return or from the submission date, if earlier (this rule has an interpretative nature).

The time limit for the tax losses carry forward for companies which do not carry on a commercial, industrial or agricultural activity is reduced from 6 to 4 years.

90%

CIT assessed cannot be lower than 90% (previously 75%) of the amount that would have been assessed in the absence of tax benefits.

Refund requests
When profits have been distributed by resident entities to EU or EEA residents, a refund of the tax withheld at source may be requested to the extent that it exceeds the tax that would be payable at standard tax rates (plus surcharge) on the total income earned by these entities, including from Portuguese sources. The refund request should be filed within two years.

Special Tax Regime for Groups of Companies
The sum of taxable profits and tax losses in the individual tax returns of the group's companies, in order to assess the group's taxable profit (or tax loss), can no longer be adjusted by the profits that have been distributed between group entities and are included in the individual taxable profits.

Special payment on account
The concept of "turnover" will be broadened for calculation of the special payment on account of banks, insurance companies or other financial entities, in order to include insurance contract commissions and operations considered as investment or service contracts.

Accounting obligations
Invoices or similar documents, sales receipts or other documents that are processed by a computer and are relevant for tax purposes can be electronically archived, at any time.

Expenses incurred on invoicing equipment and software
In the course of 2010 and 2011, exceptional write-downs arising from the substitution of invoicing programs or equipments, replaced due to software certification requirements, are considered as impairment losses, without the need of obtaining an approval by the tax authorities.

In the course of 2010 and 2011, expenses on the acquisition of certified invoicing programs and hardware, will be accepted as a cost for tax purposes in the relevant fiscal year.

Passenger and goods transport vehicles
Capital gains resulting from the transfer of passenger and goods transport vehicles remain tax exempt during 2011, if the sale proceeds are reinvested in new vehicles made after 2010.

Job creation

The additional deduction of 50% of the expenses incurred on job creation can be granted to different employers in respect of the same employee, provided that the employers are not related parties.

This tax benefit cannot be accumulated with other benefits, e.g., exemption from Social Security contributions (extraordinary measure in force in 2010).

Tax Regime for Investment Support (RFAI 2009)

The Tax Regime for Investment Support is extended until 31 December 2011.

R&D (SIFIDE II)

A new R&D regime (SIFIDE II) is approved, which is very similar to the previous one.

An increase of 10% in the basic rate of tax credit of 32.5% is introduced, applicable to SMEs that did not benefit from the incremental rate of 50%, due to not yet having completed two years of activity.

Notional remuneration of share capital

The corporate income tax deduction for notional interest on share capital applies to the 2011-2013 period.

SME – Interest and remuneration of shareholders loans

In case of SME shareholders' loans, an interest rate of EURIBOR 12 M plus a spread up to 6% (1.5% previously) is tax deductible.

Tax neutrality regime

The tax neutrality regime applicable to shareholders of merged or divided companies will also be applicable to the shareholders of companies that enter into other merger or demerger operations that are included in the Council Directive 2009/133/EC.

Contributions on the banking sector

The banking sector will be subject to a new contribution regime.

This regime applies to: (i) credit institutions whose main and effective management is located in Portuguese territory; (ii) subsidiaries in Portugal of credit institutions whose main and effective management is not located in Portuguese territory; (iii) branches in Portugal of credit institutions whose main and effective management is located outside the EU.

The contribution is calculated by reference to: (i) the liabilities computed and approved by the taxpayer, reduced by its Tier I and Tier II capital and by deposits covered by the Deposit Warranty Fund (at a rate between 0.01% and 0.05%); and (ii) the value of the derivatives not included in the balance sheet of the taxpayers (at a rate between 0.0001% and 0.0002%).

The computation and payment of this contribution must be made by the last day of June.

This contribution will not be deductible for tax purposes.

Personal Income Tax

Income tax brackets

The personal income tax brackets, shown on page 10, are updated by 2.2%, a percentage which exceeds the expected inflation rate for 2011 (1.8%, according to the prediction on the Bank of Portugal's Winter Bulletin).

Deductions and tax benefits

Two limits on the total expenses deductible by taxpayers have been created, one for tax deductions and another one for tax benefits. These vary according to the income tax bracket, but are not applicable to taxpayers whose taxable income lies in the first two (i.e., lower) income tax brackets.

In the case of tax deductions, the total expenses incurred on health, education, retirement homes and housing are subject to limits between Euro 800 and Euro 1 100.

The value of tax benefits, which include namely those listed below, are subject to limits varying between Euro 0 and Euro 100:

- Contributions to pension funds and Retirement Savings Plans (PPR);
- Contributions to the Public Capitalisation Regime;
- Expenses on renewable energies;
- Health insurances premiums;
- Donations.

The deduction for alimony payments is now limited to 2.5 times the Social Benefits Index (Indexante dos Apoios Sociais – IAS) set at Euro 419.22 for 2010, per month, per beneficiary (Euro 1 048.05).

The deduction related to life and personal accident insurance premiums is revoked, except for short-duration professions and disabled individuals.

The existing rules on redemption or withdrawal of premiums paid in previous years will continue to apply.

The deduction in respect of contributions made to mutual associations for old-age retirement purposed is limited to Euro 65 per taxpayer. When the contributions are made by a third party, the taxpayer may only avail of the deduction if the contributions are taxed in his hands.

The limits for deductions will no longer be indexed to the National Minimum Wage (NMW) but to the Social Benefits Index (IAS – currently Euro 419.22). For some deductions, the index will be maintained at the NMW (Euro 475) during a transition phase. This situation will continue until the value of the IAS, as a result of its annual updates, reaches Euro 475.

The table on page 11 shows a comparison of the deductions and tax benefits available for 2010 and the proposed values for 2011.

Taxation of pensions

For pensions above the gross annual amount of Euro 22 500, the deductible amount (Euro 6 000) will be reduced by 20% of the difference between the amount of the pension and Euro 22 500. Currently this reduction is only applicable to pensions above Euro 30 240, with the rate of reduction being 13%.

The mandatory contributions to the Social Security regime and to legal health subsystems will now be deductible against pension income only to the extent they exceed the above deduction (Euro 6 000 or the deduction applicable to pensions above Euro 22 500). Currently, the above contributions are fully deductible.

Rate applicable to foreign investment income

Investment income obtained by Portuguese tax residents and paid by non-resident entities, without the intervention of a paying agent in Portugal, will be taxed at a special rate of 21.5% (currently the rate is 20%).

Carry forward of losses

The period for the carry forward of losses in categories F (rental income), G (capital gains) and B (business and professional income) will be reduced to four years.

Taxation of disabled individuals

The exclusion from personal income tax of 10% of the gross income earned in each of the Categories A, B and H by disabled taxpayers was extended for 2011. However, the income excluded from taxation in 2011 may not exceed, for each category of income, the amount of Euro 2 500.

Anti-avoidance measures

A withholding tax rate of 30% will apply in respect of all income subject to flat withholding tax rates, whenever that income is paid or made available to the taxpayer's accounts by unidentified third parties.

Resident asset management companies are obliged to withhold tax on this income and to comply with the related reporting obligations.

Non-discrimination between residents and non-residents

The optional regime applicable to residents in other Member-States of the EU or the EEA is now applicable to broader kinds of income (this regime provides for the possibility of applying for the refund of taxes withheld, whenever those taxes exceed those that would result from the application of the progressive tax rates applicable to Portuguese resident taxpayers).

Reporting obligations in respect of health expenses

Insurance companies, non-profit organizations providing healthcare services and other entities which reimburse health expenses will now have the obligation to disclose to the Portuguese tax authorities the value of non-reimbursed health expenses.

Retirement saving funds and retirement saving plans

Any income paid or refund made is accrued for the purposes of computation of the taxable income subject to Personal Income Tax, except in case of death or 5 years upon the payment of any amounts, as foreseen in the law. Previously, the amount accrued corresponded to the amount of the tax benefit used, increased by 10%.

Progressive Tax Rates (2011)

2011 State Budget		
Taxable income (Euro)	**Tax rate (%)**	**Deductible amount**
Up to 4 898.00	11.50%	0.00
From 4 898.00 to 7 410.00	14.00%	122.45
From 7 410.00 to 18 375.00	24.50%	900.50
From 18 375.00 to 42.259.00	35.50%	2 921.75
From 42 259.00 to 61 244.00	38.00%	3 978.23
From 61 244.00 to 66 045.00	41.50%	6 121.77
From 66 045.00 to 153 300.00	43.50%	7 442.67
Over 153 300.00	46.50%	12 041.67

Acquisition value of property acquired under leasing contracts

A rule for determining the acquisition value of property acquired under a leasing contract has been established.

Dependents

Taxpayers will be obliged to identify their dependents on the personal income tax return, citing their taxpayer numbers, to be able to avail of the related tax deductions and tax benefits.

Final withholding tax rates

Interest and other forms of remuneration of shareholders' loans and share capital advances from the shareholder to the company, as well as the interest and other forms of remuneration due to shareholders as a compensation for not having received profit distributions, are now subject to withholding tax at a final rate of 21.5%.

Personal Income Tax Deductions and Tax Benefits	**2010**		**2011**	
Amounts in Euro	**Married**	**Not married**	**Married**	**Not married**
Personal deductions				
i) Taxpayer	522.50	261.25	522.50	261.25
ii) Single parents	-	380.00	-	380.00
iii) - Dependants	190.00	190.00	190.00	190.00
- Dependants <= 3 years of age as of 31 December of the relevant year	380.00	380.00	380.00	380.00
iv) Ascendants living with the taxpayer and whose income is <= the minimum social pension	261.25	261.25	261.25	261.25
v) Only one ascendant living with the taxpayer and whose income is <= the minimum social pension	403.75	403.75	403.75	403.75
Disabled individuals	3 800.00	1 900.00	3 800.00	1 900.00
i) Per disabled dependant	712.50	712.50	712.50	712.50
ii) Per disabled ascendant	712.50	712.50	712.50	712.50
iii) 30% education and rehabilitation expenses	No limit	No limit	No limit	No limit
iv) 25% of life insurance premiums	15% of the tax liability	15% of the tax liability	15% of the tax liability	15% of the tax liability
- Premiums for old-age retirement			130.00	65.00
Health expenses				
30% deduction for the following expenses:				
a) Goods and services exempt from VAT or subject to VAT at a rate of 5/6%	Unlimited	Unlimited	Unlimited	Unlimited
b) Other health expenses supported by a medical prescription	65.00 or 2.5% of a), if higher	65.00 or 2.5% of a), if higher	65.00 or 2.5% of a), if higher	65.00 or 2.5% of a), if higher
Education expenses				
i) 30% of all education expenses with a limit of	760.00	760.00	760.00	760.00
ii) Per dependant provided the number of dependent children, who are studying, is three or more.	142.50	142.50	142.50	142.50
Retirement homes				
i) Deduction of 25% of the expenses related to the taxpayer and collaterals up to the 3rd degree whose income is below the minimum national wage	403.75	403.75	403.75	403.75
Life and personal accident insurance premiums				
25% deduction on life and personal accident insurance premiums (risks of death, disability or old age retirement after 55 years-old and 5 years of contract)	130.00	65.00	Revoked - except for short-lived professions and disabled individuals	
Alimony payments				
20% of alimony payments	Unlimited	Unlimited	With a monthly limit of Euro 1 048.05 per beneficiary	

Personal Income Tax Deductions	2010		2011	
Amounts in Euro	Married	Not married	Married	Not married
Housing expenses				
Deduction of 30% of the following expenses				
a) interest or capital repayments on loans made for acquisition or rental of a principal permanent house (with the exception of repayments made using funds from Housing Savings Accounts)	591.00	591.00	591.00	591.00
b) Payments due to habitation co-operatives or group purchase regimes, for the acquisition or rental of principal permanent house	591.00	591.00	591.00	591.00
c) Rents paid for principal permanent house, net of any subsidies	591.00	591.00	591.00	591.00
The limits in a) and b) are increased as follows:				
- taxable income up to the 2nd bracket - 50%,	886.50	886.50	886.50	886.50
- taxable income up to the 3rd bracket - 20%,	709.20	709.20	709.20	709.20
- taxable income up to the 4th bracket - 10%.	650.10	650.10	650.10	650.10
Contributions to pension funds and Individual Retirement Saving Plans (PPR) (2)				
20% of contributions made with the following limits:				
i) For taxpayers younger than 35 years	400.00	400.00	400.00	400.00
ii) For taxpayers between 35 and 50 years old (inclusive)	350.00	350.00	350.00	350.00
iii) For taxpayers older than 50 years	300.00	300.00	300.00	300.00
Renewable energies				
30% of the expenses with the acquisition	803.00	803.00	803.00	803.00
Health insurance premiums				
30% deduction on life insurance premiums	170.00	85.00	170.00	85.00
Increase for each dependant children	43.00	43.00	43.00	43.00
Donations				
I) Central, Regional and Local Administration tax credit of 25%	Unlimited	Unlimited	Unlimited	Unlimited
ii) Donation to other entities tax credit of 25%	15% of the tax liability	15% of the tax liability	15% of the tax liability	15% of the tax liability
Public Capitalisation Regime				
20% of the contributions made to individual accounts managed under a public capitalisation regime	700.00	350.00	700.00	350.00

Limitations to deductions to tax liability and tax benefits

Limit to the sum of deductions (1)				
- taxable income included on the1st bracket	-	-	Unlimited	Unlimited
- taxable income included on the 2nd bracket	-	-	Unlimited	Unlimited
- taxable income included on the 3rd bracket	-	-	9.447% of the taxable income with a limit of 800 €	
- taxable income included on the 4th bracket	-	-	4.354% of the taxable income with a limit of 900 €	
- taxable income included on the 5th bracket	-	-	2.130% of the taxable income with a limit of 1 050 €	
- taxable income included on the 6th bracket	-	-	1.715% of the taxable income with a limit of 1 100 €	
- taxable income included on the 7th bracket	-	-	1.666% of the taxable income with a limit of 1 100 €	
- taxable income included on the 8th bracket	-	-	Limit of 1 100 €	
Limit of tax benefits				
- taxable income included on the 1st bracket	-	-	Unlimited	Unlimited
- taxable income included on the 2nd bracket	-	-	Unlimited	Unlimited
- taxable income included on the 3rd bracket	-	-	100.00	
- taxable income included on the 4th bracket	-	-	80.00	
- taxable income included on the 5th bracket	-	-	60.00	
- taxable income included on the 6th bracket	-	-	50.00	
- taxable income included on the 7th bracket	-	-	50.00	
- taxable income included on the 8th bracket	-	-	0.00	

(1) Applicable to the total expenses with health, education, housing and retirement homes.
(2) Not deductible after the date of retirement.

Social Security

Postponement of the entry into force of differentiated rates

The entry into force of the provisions that determine different social security rates according to the type of employment contract has been postponed to 2014. These include the increase by 3 p.p. on short term contracts and the reduction by 1 p.p. on permanent contracts.

Employees – basis for contribution

Also postponed to 2014, and depending on the publication of specific regulation, was the entry into force of the provisions regarding amounts granted to employees as profit sharing, contributions from the employer to financial applications (e.g. life insurance) for the benefit of the employees in the case of redemption or early repayment and bonuses related to the company's performance.

The exemption thresholds for income and other benefits foreseen in the Personal Income Tax Code will be increased by 50%, if established in a generally applicable Collective Labour Agreement. This includes business allowances, transport subsidies, travel allowances, cash allowances, mileage, compensation paid for the termination of a labour contract by mutual agreement if an unemployment subsidy is granted, etc.

Self employed workers – contribution by contracting entities

The new 5% social security rate due by an entity paying for services will only be due if 80% or more of the amount of the service is rendered to the same entity, to the same individual with a business activity or to the same group of companies: in this case, there will be an inspection of the contracting entity.

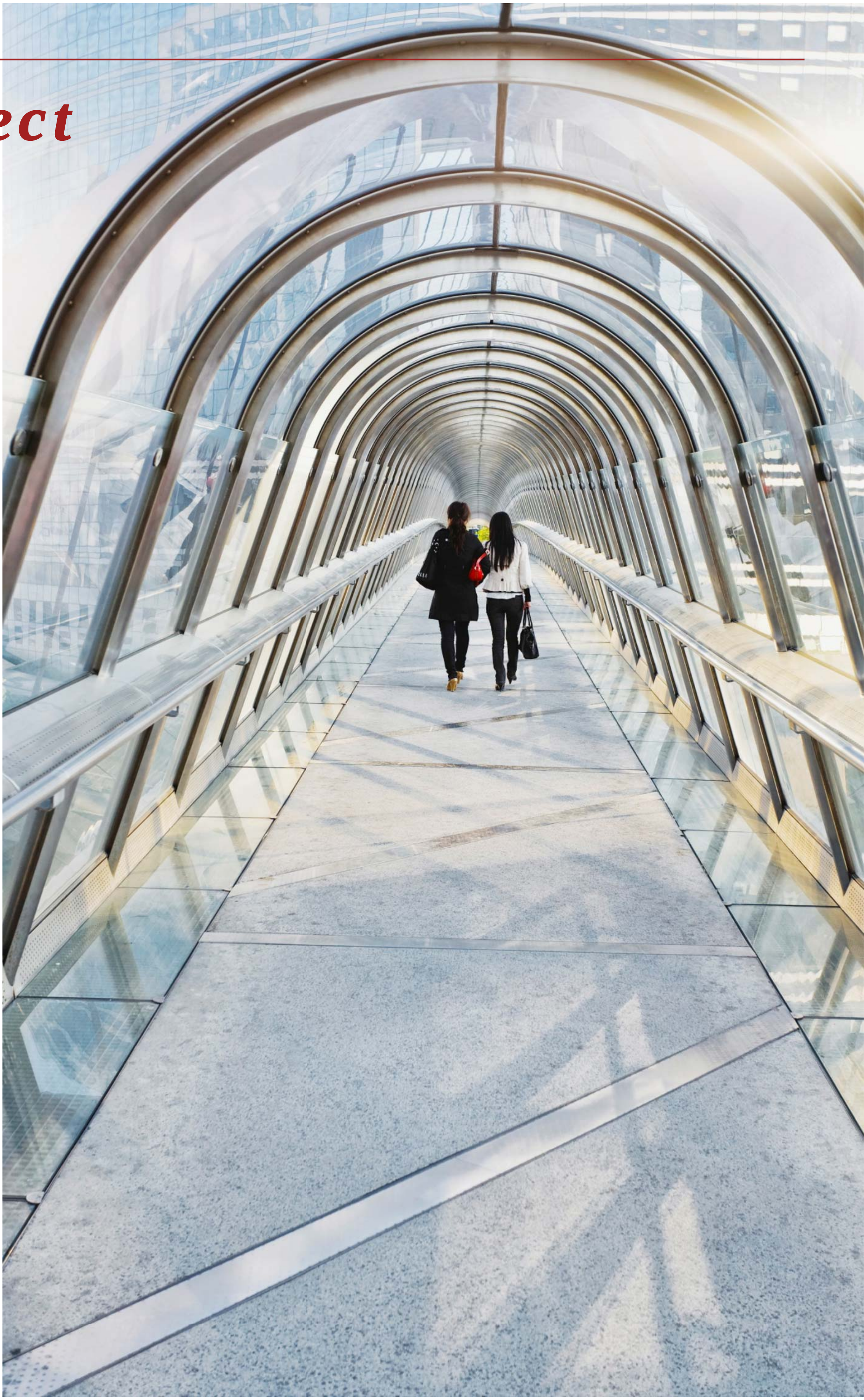
The 5% contribution is not due on payments for services which are exempt from social security contributions.

Given that the payment is to be paid on an annual basis, the first payment should only be due in 2012.

Cars

The social security charge on the private use of cars paid for by the employer will only be due in limited cases, and only when such use is provided for in a written agreement.

Indirect Taxes



Increase in VAT rates
The standard VAT rate is increased by 2 p.p. in Portugal mainland and by 1 p.p. in Madeira and Azores. Thus, the standard VAT rates become 23% and 16%, respectively.

The Schedules of goods subject to reduced and intermediate VAT rates have been revised.

Excise Duties
There is a general increase of 2.2% in excise duties (alcohol and alcoholic beverages, petroleum and energy products and tobacco products).

There are changes to the tax treatment of tobacco products.

Car Tax
The environmental element of the a car taxation will be updated annually. The increase for 2011 is 5%.

The car tax exemption for the acquisition of public transportation vehicles used in activities of public interest, acquired by public interest institutes is revoked.

Refund of VAT to the Catholic Church and other social institutions
The tax benefit which allowed the refund to the Catholic Church and private social solidarity institutions of VAT on various imports and acquisitions of goods and services was revoked.

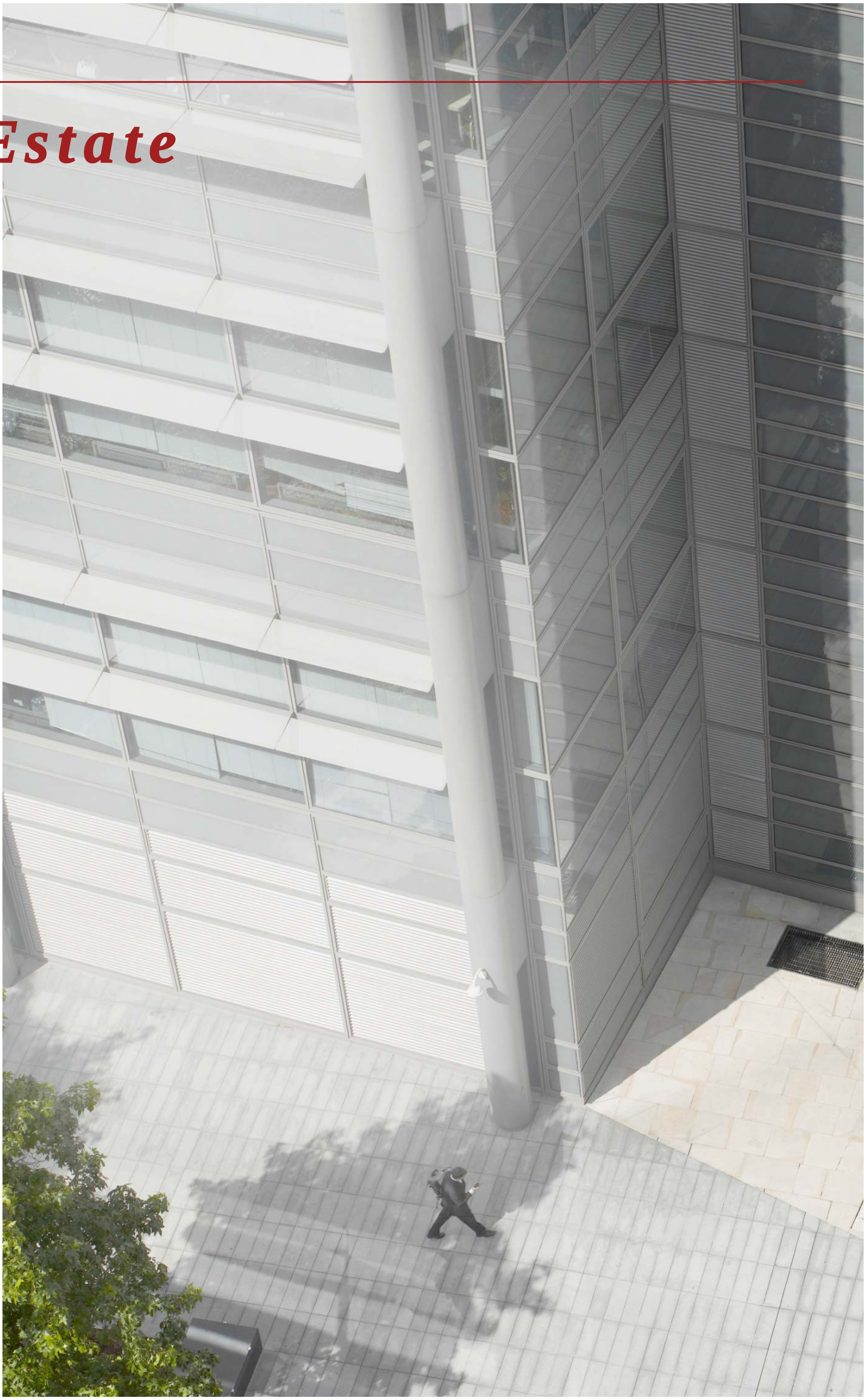
Schedule I
Increased by 17 p.p.:

- Chocolate milk;
- Flavoured, vitaminized or enriched milk;
- Milk drinks and desserts;
- Soy desserts;
- Soft drinks, fruit or vegetable juices and nectars;
- Supplies of services by lawyers to retired people;
- Fire fighting equipment;
- Use of sporting facilities.

Schedule II
Increased by 10 p.p.:

- Canned meat and molluscs;
- Canned fruits, fruit preserves, fruit jelly, jams and fruit pulp;
- Canned horticultural products;
- Food oils;
- Animal or vegetable margarines;
- Appetizers made of horticultural products or seeds;
- Appetizers or snacks made out of corn, wheat or potato flour, in individual packages;
- Ornamental flowers, foliage and flower arrangements for decoration purposes;
- Ornamental plants.

Real Estate Taxes



Properties owned by entities resident in black-listed jurisdictions

The current IMI (real estate municipal tax) rate will increase to 5%. This compares with the current rate of 1% (or 2% in the case of unoccupied properties or properties in ruins).

Management of State schools

Public entities responsible for the management of the public network of schools are exempt from IMI on buildings used in the pursuance of their statutory object.

Exemption for buildings with low registered tax value

The exemption from IMI applicable to rural or urban property with a low tax registered value, owned by low income taxpayers, will be indexed to the Social Support Index (IAS). This provision will apply only when the current IAS (Euro 419.22) is increased up to the amount of the national minimum wage in 2010 (Euro 475).

Acquisition of urban property for permanent occupation by the owner

IMT (real estate transfer tax) exemptions will be increased 2.2% (from Euro 90 418 to Euro 92 407). The scale of values subject to progressive tax rates has been adjusted by the same percentage.

Cessation of the IMT exemption and reduced rates

The IMT exemption, and reduced tax rates will not apply if a property is not used for permanent occupation by the owner within six months counted from the acquisition date of the properties.

Financial renting

A financial lessee will benefit from a IMT exemption when exercising the right to acquire the property.

The new law abolishes a 4% reduced IMT rate applicable to the acquisition by leasing entities of a certain type of properties, including properties rented to industries considered to be of particular relevance to the economic development of the country.

Properties located in less developed regions

The IMT exemption that was applicable to properties located in less developed regions, when acquired by entities carrying on activities considered important for the economic development of the country, is revoked.

Classified buildings

In order to be able to benefit from a IMT exemption, these properties must be individually qualified as properties of special national, public or local interest.

Acquisition by financial institutions of properties due to datio in solutum

Notwithstanding the fact that this IMT exemption depends on a special authorization by the Minister of Finance, it is provided that until this authorization is obtained, it will be possible to suspend the tax payment (instead of asking for a tax reimbursement) whenever the *datio in solutum* is made by an individual.

IMT reimbursement

The mechanism under which the taxpayer was allowed to make a special request for the reimbursement of the IMT paid in excess, within a 4 year-term after the payment, is revoked. Accordingly, taxpayers will only be able to use standard procedures, such as administrative claims, which are subject to significantly shorter time limits.

Real Estate Investment Funds

Property included in closed Real Estate Investment Funds is again exempt from IMI and IMT.

IMT and IMI exemption for closed Real Estate Funds

Stamp Tax

Stamp Tax obligations for private entities and professionals

Private entities or professionals authenticating documents are obliged to charge the Stamp Tax due on contracts signed between individuals, whenever those contracts are presented to them.

Shareholder loans exemption

There is no longer a requirement of a minimum one year term for shareholder loans to qualify for Stamp Tax exemption.

Exemption for entities responsible for of schools

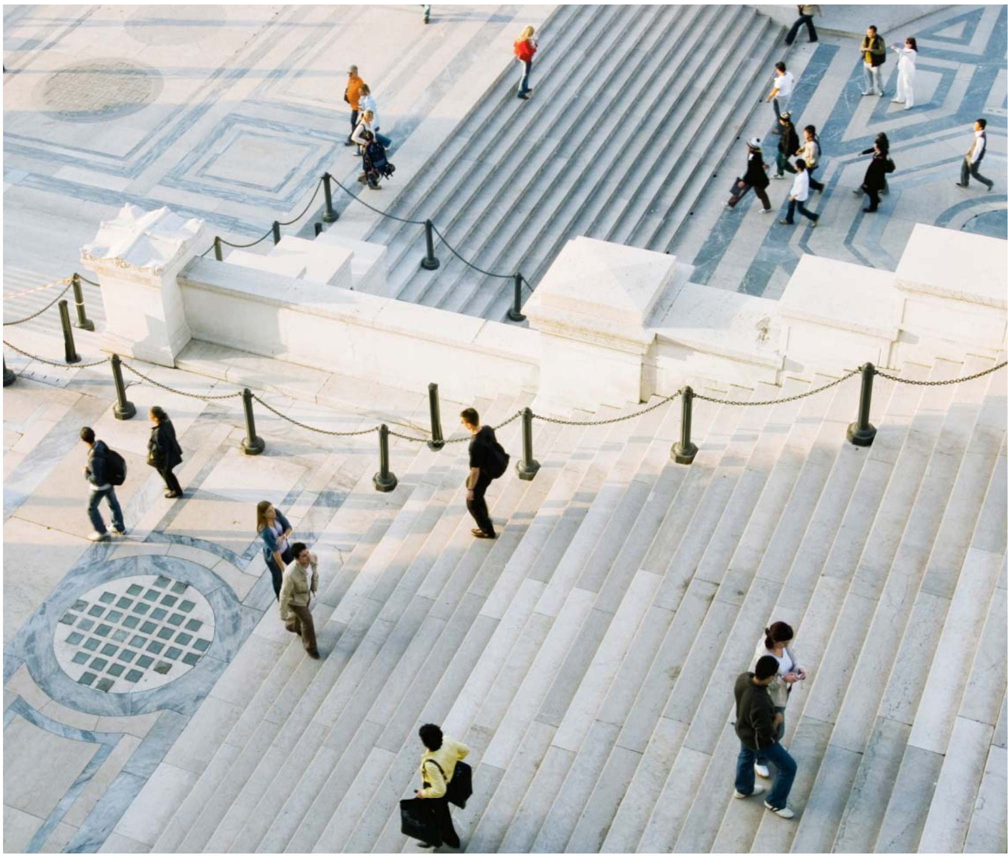
There is a Stamp Tax exemption for buildings used by government entities responsible for the public schools network.

Exemption for repos and fiduciary transmissions

There is a Stamp Tax exemption, in force until 31 December 2011, applicable to repos and fiduciary transmissions between financial institutions and central counterparties.

Elimination of the special refund procedure

A special refund process, allowing a four year limit for requesting Stamp Tax incorrectly charged, is revoked.



Tax Benefits

Capital gains realised by non-residents

The exemption from taxation of capital gains realized on the transfer of shares, other securities, autonomous warrants and derivative financial instruments, does not apply to entities resident in countries which do not have a Double Taxation Treaty or a Tax Information Exchange Agreement with Portugal.

Taxation of dividends of shares acquired in privatisations

Dividends received from shares acquired in privatisations are now subject to taxation on their full amount. Previously, there was an exemption of 50%.

Tax benefits for external loans

Interest related to foreign capital representing Schuldscheindarlehen loan contracts, entered into by the Instituto de Gestão da Tesouraria e do Crédito Público, IP, representing the Portuguese Republic, will be exempt from Corporate Income Tax and Personal Income Tax, as long as the creditor is a non-resident without a permanent establishment in Portugal to which the loan may be allocated.

This benefit depends on a certification by Instituto de Gestão da Tesouraria e do Crédito Público, IP.

Special taxation regime for debt securities issued by non-resident entities

Income deemed to be obtained in Portugal, arising from public and non-public debt securities issued by non-resident entities is exempt from Personal Income Tax and Corporate Income Tax. This exemption applies when the income is to be paid by the Portuguese State as a warrant of obligations assumed by companies in which the Portuguese State , as well as other EU member States, is a shareholder.

This exemption applies to beneficial owners that meet the requirements provided for in under the special taxation regime for debt securities.

Repos with non-resident financial institutions

Gains obtained by non-resident financial institutions as a result of repos with resident financial institutions are exempt from Corporate Income Tax, as long as such gains are not attributable to a permanent establishment of those institutions located in Portugal.

Tax Litigation

Bank information

The Tax Administration will have access to all banking information of the taxpayers, without their consent, in situations where there are tax debts due.

Taxpayers that are included in the list of Tax Debtors or that are considered to be at risk of non-compliance will be subject to automatic information mechanisms regarding the opening and maintenance of bank accounts.

Financial institutions will be required to file, by the end of July of each year, a statement with the description of payments made through credit and debit cards by the taxpayers that receive self-employment income (Personal Income Tax) and income subject to corporate income tax , without identifying the holder of the account.

Subsidiary responsibility

Taxpayers that are subsidiarily responsible for tax debts will be also responsible for late payment interest computed up to the opening of a enforcement collection process.

Compensatory interest

The law now defines which departments of the Tax Administration may decide that compensatory interest is due. An autonomous claim procedure is now provided for.

Analysis and prioritization of credits

The analysis and prioritization of credits will be carried out by the Tax Administration. Those who have claimed their credits will be able to appeal the Tax Administration's decision to the courts.

Sale of seized assets

The sale of seized assets will preferably be made by electronic auction. However, the head of the relevant department may determine that the sale of seized assets should be made by other means, including private negotiation.

Accumulation of infractions

The legal regime which determines that if a taxpayer committing several tax infractions is subject to just one penalty is replaced by a penalty regime where taxpayers are subject to a fine corresponding to the sum of the fines applicable to each tax infraction.

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