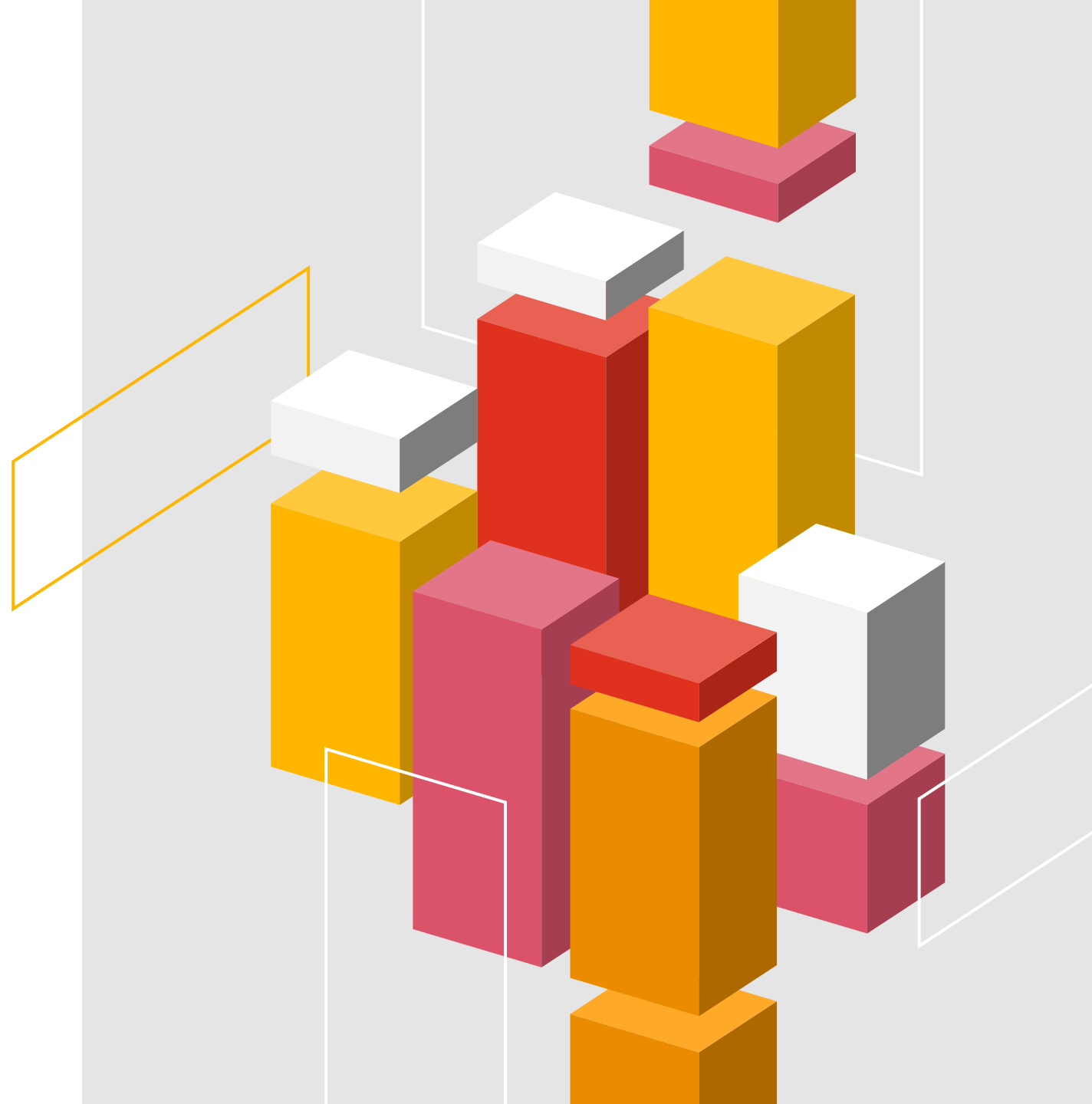


pwc.pt/statebudget

2025 State Budget Law Proposal

A “Youthful” Budget

October 2024

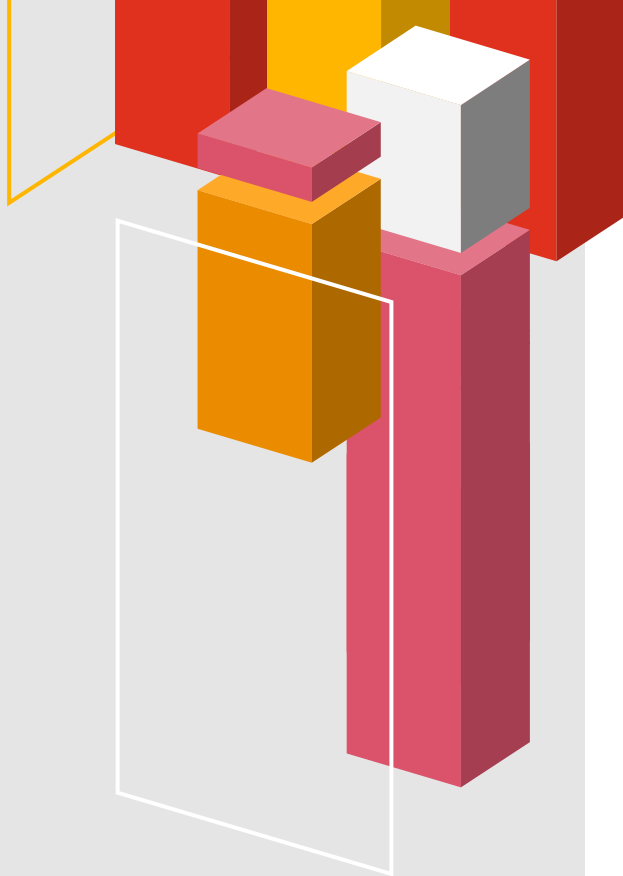


Contents



This document presents the key tax aspects of the 2025 State Budget Law Proposal.

PwC clarifies!



2025 State Budget – Law Proposal

1. Personal Income Tax (PIT)	3
2. Corporate Income Tax (CIT)	6
3. Indirect Taxes	7
Value Added Tax (VAT)	7
Excise Duties (IEC)	8
Circulation Tax (IUC)	8
Vehicle Tax (ISV)	8
4. Tax Benefits	9
5. Other Taxes and Levies	11
Stamp Tax	11
Property Transfer Tax (IMT)	11
Levies	12
Tax Compliance	12



Click directly on the chapters for quicker access to the contents.

1

Personal Income Tax (PIT)



The limits of the brackets for the general PIT rates are updated by 4.6%, above the projected inflation rate.”

General rates

The limits of each bracket for the general PIT rates are updated by approximately 4.6%, resulting in the following table:

Taxable Income (€)	Rate	Amount to Deduct (€)
Up to 8,059	13.00%	0.00
More than 8,059 up to 12,160	16.50%	282.07
More than 12,160 up to 17,233	22.00%	950.91
More than 17,233 up to 22,306	25.00%	1,467.91
More than 22,306 up to 28,400	32.00%	3,029.38
More than 28,400 up to 41,629	35.50%	4,023.14
More than 41,629 up to 44,987	43.50%	7,353.76
More than 44,987 up to 83,696	45.00%	8,028.38
More than 83,696	48.00%	10,539.00



Youth PIT

It is proposed to extend the Youth PIT tax regime, making it applicable to income from dependent and independent work earned by taxpayers (not dependents) who are up to 35 years old, while also eliminating the condition related to the completion of a cycle of studies.

It is also proposed to increase the duration of this benefit to ten years, applying in the first year of income generation in which the option for the benefit is exercised and in the nine subsequent years in which income is obtained and the option is also exercised.

Additionally, it is proposed to increase the applicable exemption as follows:

- 100% in the first year;
- 75% in the second, third, and fourth years;
- 50% in the fifth, sixth, and seventh years;
- 25% in the eighth, ninth, and tenth years.

The amount of exempt income under the above terms is limited to an amount corresponding to 55 times the value of the Social Support Index/IAS (€ 28,009.30, considering the IAS currently in force).

However, a transitional regime is created which establishes that taxpayers start to qualify for this exemption in the year following the number of years of income generation from categories A and B already elapsed, not considering, for this purpose, the years in which they were considered dependents.

The exemption does not apply in the years in which income from categories A and B is not earned, resuming its application for the remaining years income is obtained by the taxpayer, until a total of ten years of exemption or the age limit of 35 years is reached.



It is proposed to exclude this benefit for taxpayers who: beneficiem ou tenham beneficiado do regime aplicável a residentes não habituais;

1. benefit or have benefited from the regime applicable to non-habitual residents;
2. benefit or have benefited from the tax incentive for scientific research and innovation, provided for in article 58-A of the Tax Benefits Code (EBF);
3. have opted for taxation under the tax regime applicable to ex-residents;
4. do not have their tax situation regularized.

The taxpayer may request that the paying entity reflect the application of this regime in the withholding taxes due, by informing the entity of the year of application of the exemption he/she currently is.



It is anticipated that the Youth PIT will be expanded in terms of the number of beneficiaries, the duration and the amount of the benefit.”

Meal allowance

It is proposed to increase the value of the meal allowance provided through meal vouchers that is not subject to taxation to a daily amount of € 10.20. This means that only the portion exceeding 70% of the legally established limit (currently € 6) will be considered as employment income, instead of the previous 60%.

Specific deduction – Category A and Category H

An update is proposed for the specific deduction applicable to employment and pension income to an amount corresponding to 8.54 times the value of the IAS. Based on the current IAS value, the specific deduction amount would be € 4,349.08.

Subsistence level

It is proposed to update the reference value of the subsistence level, in accordance with the increase in the monthly minimum national wage.

Autonomous taxation rates

It is proposed to update the limits for the acquisition cost of passenger or mixed vehicles from € 20,000 to € 30,000 for the purposes of applying autonomous taxation on expenses incurred by taxpayers who have or should have organized accounts, within the scope of a business or professional activity.

Withholding taxes for self-employed workers

It is proposed to reduce from 25% to 23% the withholding tax rate applicable to income from the professional activities listed in the table referred to in Article 151 of the PIT Code.

Payments on account

It is proposed to reduce the amount of payments on account due by taxpayers earning category B income, so that it is reduced to 65% of the amount resulting from the application of the current formula (currently 76.5%).

Withholding taxes on overtime work

It is proposed that the waive from the withholding tax applicable to employment income from overtime work obtained in Portuguese territory by non-resident taxpayers will now have as a limit the overtime income up to 100 hours (currently 50 hours).

Additionally, it is proposed that the remuneration for overtime work obtained by resident taxpayers will be subject to 50% of the autonomous withholding tax rate as from the first hour of overtime work (currently from the 101st hour).



Corporate Income Tax (CIT)



The standard CIT rate is reduced by 1 percentage point, dropping to 20%.”

CIT Rate

The standard CIT rate is reduced by 1 percentage point, dropping to 20%.

SMEs and Small Mid Caps will be subject to a CIT rate of 16% (currently 17%), on the first € 50,000 of taxable income.

Autonomous Taxation

A reduction in autonomous taxation is anticipated on expenses related to passenger cars, certain light commercial vehicles, motorcycles, or motorbikes.

2024		2025 Proposal	
Brackets	Rates	Brackets	Rates
Less than € 27,500	8.5%	Less than € 37,500	8%
Equal to or greater than € 27,500 and less than € 35,000	25.5%	Equal to or greater than € 37,500 and less than € 45,000	25%
Equal to or greater than € 35,000	32.5%	Equal to or greater than € 45,000	32%

It is also expected that the expenses incurred with shows offered to clients, suppliers, or any other people or entities will no longer qualify as representation expenses, hence not subject to autonomous taxation.

The increased rate by 10 percentage points is not applicable in the 2025 tax year when:

- (i) the taxpayer has obtained taxable profit in one of the three previous tax periods and has timely fulfilled the declarative obligations related to the submission of the CIT return and the Annual Statement for the two previous tax years; or
- (ii) the 2025 tax year corresponds to the start-up tax year or one of the two subsequent years.

Health insurance

Expenses incurred with health insurance for the benefit of employees, retirees, or their families, when considered a social benefit for CIT purposes, will be considered at 120% of their value.

Indirect Taxes



Value Added Tax (VAT)

Exemptions

The exemption applicable to the transfer of the following is extended until 31 December 2025:

- fertilisers, soil conditioners, and other products for feeding cattle, poultry, and other animals, when used in agricultural production activities; and
- products, whether dry or wet, intended for feeding companion animals when taken in by legally constituted animal protection associations.

All these exemptions grant the right to deduction.



Changes are expected to the reduced VAT rate for housing construction.”

Legislative Authorization – Reduced rate for construction or rehabilitation of housing properties

The Government is authorized, during the year 2025, to amend item 2.18 of List I annexed to the VAT Code to:

- stipulate that these construction works are defined according to criteria established by the members of the Government responsible for finance and housing; and
- exclude from its scope services related to housing properties whose value exceeds the limit compatible with the pursuit of the Government's social housing policies.

Refund of an amount equivalent to VAT

Entities holding forest fire brigades, which are part of the Integrated rural fire management system (“Sistema de Gestão Integrada de Fogos Rurais”), will be able to benefit from a refund of an amount equivalent to VAT when they cannot exercise the right to deduction.

Excise Duties

Tax on Alcoholic Beverages and Non-Alcoholic Beverages Added with Sugar (IABA)

The reduction of the IABA rate (applying only 25% of the tax) on liqueurs and "crème de", distilled spirits, and fruit brandy (in certain categories and with specific characteristics indicated in Annex II of Regulation (EC) No. 110/2008 of the European Parliament and of the Council, of 15 January 2008) is extended until 31 December 2025, provided they are exclusively manufactured from arbutus fruits and produced and distilled in the municipalities already provided for in the current legislation.

Tax on Petroleum and Energy Products (ISP)

Petroleum and energy products harmful to the environment, when used in the production of electricity, electricity and heat (cogeneration), and city gas, both in terms of ISP and CO2 addition, in the Autonomous Regions of Madeira and the Azores, will now be taxed at 100%, putting an end to partial exemptions.

Certain products used in facilities subject to an energy consumption rationalization agreement (ARCE), previously taxed at a rate corresponding to 65% of the carbon tax rate, will now be taxed at 100%.

Natural gas used for the production of electricity, electricity and heat (cogeneration), and city gas by entities that carry out such activities as their main activity on the mainland will maintain the current level of taxation.

A transitional provision is introduced, under which, in 2025, colored and marked diesel can be consumed by vehicles used by forest fire brigades that are part of the integrated rural fire management system. This measure is subject to the authorization of European institutions.

Tobacco Tax

It is foreseen that the total minimum reference tax on cigarettes will correspond to the national average taxation, disregarding, for this purpose, the European average taxation.

The minimum tax applicable to cigars has also been changed, now defined as 50% of the minimum tax on cigarettes, applicable to cigarettes sold at the weighted average price of the same, as provided for in Article 103(5).



.....
Considerable Increase in Tax on Petroleum and Energy Products and carbon Tax."
.....

Circulation Tax (IUC)

The additional IUC remains in force.

Vehicle Tax (ISV)

Passenger cars with plug-in hybrid engines, whose batteries can be charged via connection to the electrical grid and have a minimum range in electric mode of 25 kilometers, registered in another EU Member State between 1 January 2015, and 31 December 2020, will no longer be taxed under the normal regime and will instead be taxed at an intermediate rate of 25%.

The period of use considered for the application of the reduction percentage related to the displacement and environmental components for used vehicles with definitive community plates assigned by other EU Member States is now harmonized.

The taxpayer is exempt from paying a fee to request the recalculation of the tax in cases where they disagree with the provisional assessment issued by customs.

Tax Benefits



The capitalisation of companies is now (even) more attractive.”

CIT – Tax incentive to wage increase

The Tax incentive to wage increase (“Incentivo fiscal à valorização salarial”) will apply when there is an increase in the average annual base salary per worker of at least 4.7% (currently, 5%).

The application of the regime is no longer dependent on the non-increase of the salary range. However, it is now necessary to verify an average increase of at least 4.7% in the annual base salary of workers who earn an amount equal to or less than the company's average annual base salary.

The costs associated with salary increases will now be increased by 200% (currently, 150%), up to a maximum annual amount per worker of five times the National Minimum Monthly Wage (currently, four times).

Thus, the maximum deduction to the taxable profit per worker is set at € 4,350 (currently, € 1,640).

CIT – Incentive to the Capitalization of Companies (ICE)

ICE will be calculated by applying the average 12-month Euribor rate plus a spread of 2 percentage points (currently, 1.5 percentage points), regardless of the company's size.

It is also foreseen that, in the 2025 tax year, the incentive rate will be increased by 50%, instead of the already foreseen 30%.



PIT and Social Security – Productivity bonuses, performance bonuses, profit sharing, and balance sheet bonuses, paid voluntarily and without regular nature

It is proposed to exempt from PIT and exclude from contributions to the Social Security, up to a limit of 6% of the annual base salary, the amounts paid in 2025 to workers or members of statutory bodies as productivity bonuses, performance bonuses, profit sharing and balance sheet bonuses, provided they are paid voluntarily and without regular nature.

This exemption only applies if the employer, in the year 2025, has met the conditions for applying the tax incentive for wage increase.

When applicable, an express mention that the conditions to apply the regime are met must be made in the annual income statement to be delivered to the worker by the employer.

The withholding tax rate to be applied to these amounts is the one corresponding to the monthly remuneration paid in the month in which the payment is made.

PIT – Tax incentive for company recapitalisation

It is proposed to strengthen the incentive for individual investment in company capitalisation, by allowing the deduction, for PIT purposes, of 20% of capital contributions made in cash, to the gross amount of profits distributed by that company or, in the case of the sale of the shareholding, from the balance between the capital gains and losses realized.

This deduction is no longer conditioned by specific requirements related to the company's economic situation, thus applying to most companies.

However, it is foreseen that it will not apply to contributions made to entities subject to the supervision of the Bank of Portugal or the Portuguese Insurance and Pension Funds Supervisory Authority, branches in Portugal of credit institutions, other financial institutions or insurance companies.

Extension

The following tax benefits provided in the Tax Benefits Code (EBF) are extended until 31 December 2025:

- deductions related to partnerships of titles with social impact (Article 19-A);
- tax incentives for forestry activities (Article 59-D);
- forest management entities and forest management units (Article 59-G).
- electrosolar or exclusively electric vessels (Article 59-J).

Additionally, the extraordinary support regime for costs incurred in agricultural production (Article 240 of Law 82/2023, of 29 December) is extended until 31 December 2025.



It is proposed to exempt from PIT bonuses awarded to workers under certain conditions.”



Other Taxes and Levies



The brackets for determining the Real Estate Transfer Tax (IMT) rate for residential urban properties are updated by 2.3%.”

Stamp Tax

Transmission of data between the Institute of Registries and Notaries, the Treasury and Public Debt Management Agency, and the Tax Authority

The Stamp Tax Code now includes provisions for data transmission between the Institute of Registries and Notaries, the Treasury and Public Debt Management Agency, and the Tax Authority. This includes information on the death of holders of public debt securities and certificates, to ensure compliance with tax obligations.

Exemptions in the context of housing credit

The exemption for housing credits, up to the amount of the outstanding capital, is extended until 31 December 2025, concerning:

- (i) changes in the term resulting in tax payable due to the applicable rate differential;
- (ii) extension of the term; and
- (iii) entering into a new housing credit contract for debt refinancing. In this last case, the exemption covers the guarantees provided, as well as guarantees provided in the case of a change of the credit institution or subrogation in the rights and guarantees of the mortgage creditor.

Fixation of Instalments in housing credit

The exemption for the tax on facts provided for in item 17.1 of the general table (granting of credit) in the context of temporary installment fixation and capitalization of deferred amounts in the value of the loan for own and permanent housing is extended until 31 December 2025.

Real Estate Transfer Tax (IMT)

Determination of IMT rate for the transfer of residential urban properties

The brackets for determining the IMT rate applicable to the transfer of urban properties, or building units of urban properties, intended exclusively for residential use, are updated by 2.3%.

As a result of this change, in case of acquisition of an urban property or a building unit of an urban property intended exclusively for permanent residential use, IMT is only due if the taxable basis exceeds € 104.261 (currently € 101.917).

Levies

Extraordinary levy on the energy sector (CESE)

Remains in force.

Audiovisual levy

The monthly amounts are not updated.

Bank levy

Remains in force.

Solidarity surcharge for the banking sector

Remains in force.

Pharmaceutical industry levy

Remains in force.

Extraordinary levy on suppliers of medical devices to the national health service

Remains in force.

Tax Compliance

Valuation of inventories

All taxpayers are exempt from the obligation to value inventories for the tax year starting on or after 1 January 2024.

Taxpayers not required to maintain a permanent inventory are also exempt from this obligation for the tax year starting on or after 1 January 2025.

PDF invoices

Until 31 December 2025, invoices in PDF format are accepted and considered as electronic invoices for all purposes provided for in tax legislation.

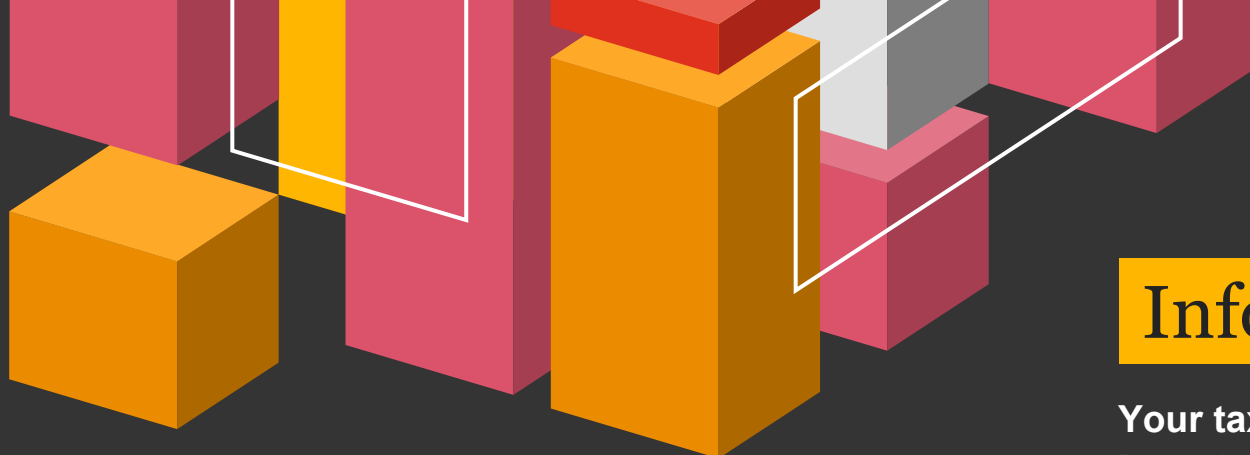
General waste management regime – Printing of invoices and other fiscally relevant documents

The prohibition on the systematic printing and distribution of invoices, as provided for in the general waste management regime, does not affect the printing of invoices and other fiscally relevant documents.

SAF-T (PT) accounting file

The obligation to submit the SAF-T (PT) file related to accounting will apply to periods from 2026 onwards, to be submitted in 2027 or in subsequent periods

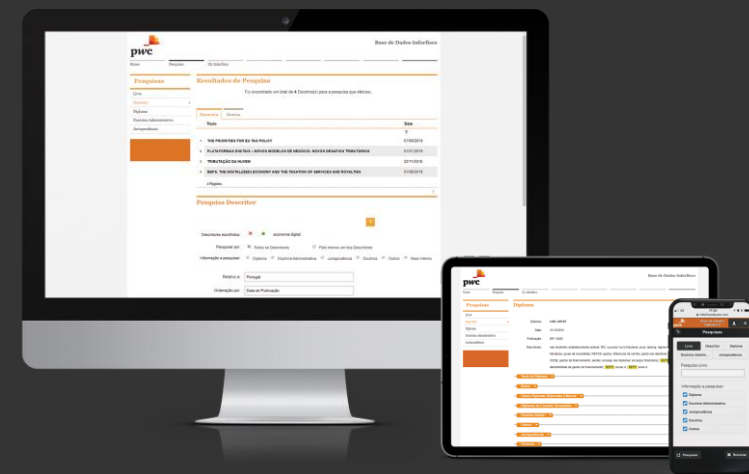




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