Tax

The law that approved the State budget for 2008 (2008 Budget) was published without substantial changes considering the bill submitted by the Government to the Parliament.

In general, the 2008 Budget presents some relevant changes in terms of withholding tax and transfer pricing and new tax benefits.

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The 2008 State Budget Law

1. The approval of the 2008 Budget law

The final version of 2008 State Budget published by Law 67-A/2007 of 31 December 2007 (2008 Budget Law) reflected substantially the Bill submitted by the Government, with minor changes to the initial proposal. One of those changes is the obligation of the State to pay default interest in case of delay in the refund of taxes.

In general, the 2008 Budget Law continued the tax policy followed in the year 2007, although it has approved a cut of the tax burden in certain cases.

2. Relevant changes approved by the 2008 Budget law

With respect to Portuguese personal income tax (IRS), the 2008 Budget Law updates the intervals used in the calculation of the IRS and increases the tax burden over pensions.

Nevertheless, there is a reduction of the tax burden over households and non-residents, whose income from employment or professional activities or pensions obtained in Portugal is now subject to a reduced rate of 20%.

Regarding Portuguese corporate income tax (IRC), we should highlight the following changes, among others:

(a) Reduction of IRC rate in the municipalities located at the interior, from 20% to 15%, for companies already incorporated, and from 15% to 10%, for companies to be installed in those municipalities;

(b) New temporary tax benefits applicable to the implementation of actions for the rehabilitation of urban property;

(c) Approval of the tax rules applicable to "investors in venture capital" (Investidores de Capital de Risco) which is basically the same applicable to Portuguese venture capital companies;

(d) Revision of withholding tax rules applicable to payments to non-residents and extension of the exemption applicable on dividends paid to entities resident in the other European Union countries, and

(e) Possibility to enter into transfer pricing agreements with the Portuguese tax authorities.

Regarding Portuguese valued added tax (IVA), we should highlight:

(a) Changes to the lists of reduced and intermediate rates; and

(b) A change on the rules applicable to the waiver of the VAT exemption applicable on the lease of buildings was also amended.

Although the 2008 Budget Law introduced some tax innovations, some of them still need to be tested, as is the case of transfer pricing agreements, which did not exist in the past in Portugal.