



The 2013 State Budget Proposal

The 2013 State Budget Proposal (**Budget Proposal**) confirms most of the fiscal measures already announced, but contemplates some positive measures, such as the VAT cash accounting system and additional tax incentives for the reinvestment of profits.

Personal Income Tax

The main changes already announced were included in the Budget Proposal, *e.g.*:

- Creation of a surcharge of 4%, which, in the case of the employees and pensioners, will be paid in advance by way of a monthly withholding over the income exceeding the minimum wage after deducting standard withholding tax and social security and health contributions;
- Reduction of tax brackets from the current 8 to 5 and increase of the marginal tax rates (*e.g.* maximum rate will be increased to 48%); solidarity tax rate of 2.5% will continue to apply;
- Increase of withholding tax limit applicable to employment income and pensions from 40% to 45%;
- Increase of the independent services income subject to taxation under the simplified accounting regime (from 70% to 80%); withholding is also increased from 21.5% to 25%;
- Increase of withholding and autonomous tax rates applicable on interest, dividends and capital gains from 25% to 28%;
- Reduction of the tax reliefs in respect of house mortgage loans from €591 to €296; and
- Revocation of the €500 tax relief applicable to capital gains from the sale of shares, bonds and other debt securities.

A good news is the application of an autonomous tax rate of 28% to real estate income, with an option to aggregate this income, a measure aimed at promoting the rental market.

Corporate Income Tax

The main changes included in the Budget Proposal are the following:

- The advance tax payment will be increased from 70% to 80% of the tax paid in the previous year in case of companies with a turnover up to €500,000 and from 90% to 95% for companies with a turnover exceeding €500,000;
- The state surcharge of 3% will apply to the portion of the taxable profits between €1,5 million and €7,5 million (previously this limit was of €10 million) and the rate of 5% will apply to taxable profits exceeding €7,5 million; and
- The tax deductibility of net financing expenses will be limited to €3 million or, if higher, 30% of the earnings before interest, taxes, depreciation and amortization, although this limit will be of 70% in 2013, 60% in 2014, 50% in 2015 and 40% in 2016; this limitation will not apply to banks, insurance companies and their branches in Portugal.

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VAT

There are some good and bad news:

- Extension of VAT recovery in case of approval of recovery plans under special restructuring procedures (*e.g.* Revitalizar, SIREVE);
- Improvement of the VAT recovery in case of doubtful debts due after 1 January 2013; and
- Revocation of the VAT exemption applicable to agricultural activities as of 1 April 2013.

Property Taxes and Stamp Duty

The following proposed changes may be highlighted:

- Application of the safeguard clause in case of significant increase of Real Estate Tax arising from properties revaluation;
- Application of Real Estate Transfer Tax to some transactions involving real estate investment funds of private subscription (*e.g.* merger of funds);
- Application of Stamp Duty to prizes of state games (*e.g.* Euromillions, national and instantaneous lotteries, Totobola, Totogolo, Totoloto and Joker) equal to or higher than €5,000 at a rate of 20%.

The Government will also be authorised to amend the Stamp Duty Code in order to levy stamp duty over financial transactions in the secondary market at a rate up to 0.3%.

Special Taxes

Special taxes applicable over certain goods will also be increased (*e.g.* gas, gasoline, tobacco and cars). The special contribution on the banking sector will remain in force.

Non Residents

Withholding tax over certain types of income obtained by non residents in Portugal (*e.g.* intellectual property, royalties, equipment lease, salaries, independent services income, pensions and intermediation fees) will be increased to 25%. Real estate rents will be subject to income tax at a rate of 25% in case of companies and 28% in case of individuals.

Other Changes

The Budget Proposal also includes some positive changes which will need to be object of new legislation before entering into force:

- Approval of a VAT cash accounting system for businesses with annual turnover up to € 500,000;
- Approval of a tax credit of 20% of capital contributions made to newly incorporated companies in the first three years of activity up to €10,000;
- Transfer of the Investment Support Tax Legal Framework (the so-called "RFAI") to the Investment Tax Code, with some changes (*e.g.* additional tax incentive to the reinvestment of profits and capital increases which proceeds are invested in eligible assets, consisting of a tax relief up to 10% of the investment); and
- Amendment of the tax regime applicable to the transfer of head-office to EU countries.