

PORTUGAL ANNOUNCES TAX ON ENERGY WINDFALL PROFITS

The Portuguese Government announces legislation to tax windfall profits of energy companies.

Yesterday, the Portuguese Cabinet approved in its weekly meeting a new bill proposal to create a temporary and extraordinary solidarity contribution on the energy sector.

The goal of this new bill is, the Portuguese Government says, to provide an adequate tax treatment for windfall profits arising from unanticipated circumstances, such as rising inflation, which result in current profits not matching those usually made by energy companies. The Portuguese Government also claims that this new tax will mitigate the economic effects of inflation and the consequent increase in energy prices.

Of course, it is yet to see how energy companies will reflect this tax on energy prices and whether it will in fact help the decrease in inflation or, on the contrary, add additional inflationary pressure to an already overheated energy market.

This law proposal will now be submitted to Parliament for discussions and most likely approval, giving the majority the Government party has in the Parliament. The market is anticipating a no less than 33% tax rate applicable to profits falling under this new contribution, that will be added to the energy companies' CIT on overall profits. Until the text of the proposed bill is known, it will remain unclear if and how this tax will apply to the Portuguese energy companies' 2022 profits or only to those from 2023 onwards.

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