

## 2024 PORTUGUESE STATE BUDGET PROPOSAL

*The 2024 Portuguese State Budget proposal introduces several tax relief measures regarding IRS (Income Tax) such as a reduction in IRS rates up to the 5th income bracket and a more favorable young IRS. It also involves changes in IRC (Corporate Income Tax), including a special rate applicable to startups, salary appreciation incentives, and new rules for the acquisition of intangible assets. The already announced end of the non-habitual resident regime is confirmed, with the creation of a similar tax incentive limited to higher education and scientific research faculty who become residents in Portugal.*

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The Portuguese Government presented the State Budget proposal for 2024. In this newsletter, we summarise the main tax changes foreseen in this proposal.

## PERSONAL INCOME TAX

The main proposed changes to Personal Income Tax (**PIT**) are the following:

- **Former residents PIT.** The former resident tax regime, which includes a 50% tax exemption applicable to employment income and professional income, will be amended. Under the new rules, the exemption will now have a limit of €250,000 and will cover taxpayers who become tax residents between 2024 and 2026 and who have not been resident in Portugal in any of the previous five years. The exemption is limited to five years.
- **Youth PIT.** The exemptions of the Youth PIT regime are now as follows:
  - 100% in the first year, with a limit of 40 times the value of the Social Support Index;
  - 75% in the second year, with a limit of 30 times the value of the Social Support Index;
  - 50% in the third and fourth year, with a limit of 20 times the value of the Social Support Index; and
  - 25% in the fifth year, with a limit of 10 times the value of the Social Support Index.
- **PIT brackets update and PIT rates reduction.** The PIT brackets will be updated in 3%. As an example, the first bracket will increase from €7,479 to €7,703 and the last from €78,834 to €81,199. PIT rates up to the fifth income bracket will be reduced according to the following table:

Bracket	2023 Rates	2024 Rates
1	14.5%	13.25%
2	21%	18%
3	26.5%	23%
4	28.5%	26%
5	35%	32.75%

- **Minimum income.** The minimum income subject to PIT increases from €10,640 to €11,480.
- **Deduction of training and education expenses.** The expenses incurred in connection with professional training will be deductible by up to 30%.
- **Employee's housing tax incentives.** Between 2024 and 2026, employment income in kind related to the use of a primary residence, located in Portuguese territory, and provided by the employer, will be exempt from PIT and social security contributions, as long as it does not exceed the rent ceiling established by the Rental Support Program (*Programa de Apoio ao Arrendamento*). However, this exemption does not apply to holders of a direct or indirect stake of at least 10% in the employer's share capital or voting rights.
- **Employee profit sharing.** The amounts paid to employees as a profit share (*gratificações de balanço*), will be exempt up to 5 times the amount of the guaranteed minimum monthly wage. To be eligible for this exemption, the fixed earnings per employee must increase, in 2024, in average, 5% or more. However, this income will have to be considered when calculating the rate applicable to the aggregated taxable income.
- **Non-habitual residents.** The non-habitual resident regime will be revoked. However, it will continue to apply to:
  - Taxpayers who, on the date of publication of the 2024 State Budget, are registered as non-habitual residents and the ten-year period has not elapsed yet; and
  - Taxpayers who, until 31 December 2023, meet the conditions for registration as non-habitual residents or hold a valid visa on this date, provided they apply until 31 March 2024.
- **Annual tax returns.** If the taxpayer does not file the annual tax returns after being notified by the Portuguese Tax Authorities, the Portuguese Tax Authorities will calculate the tax income on the basis of the PIT withholdings that have been made, the application of the minimum income and the expenses that are known to the Portuguese Tax Authority.

## CIT

Regarding Corporate Income Tax (**CIT**), we highlight the following proposals:

- **Startups CIT rate.** Companies that qualify as startups will be subject to CIT at a rate of 12.5% on the first €50,000 of taxable income provided that such companies:
  - Are innovative companies with a high growth potential or which have been recognised as suitable by ANI, due to their R&D activities or technology sector certification;
  - Have completed at least one round of venture capital financing or received equity or quasi-equity contributions from, *inter alia*, business angels; and
  - Have received investment from the Portuguese Development Bank (*Banco Português de Fomento*), or from funds managed by it, or by its subsidiaries, or from one of its equity or quasi-equity instruments.

- **Intangible assets tax deduction.** The acquisition cost of intangible assets will be tax deductible if it is autonomously recognised in the taxpayer's individual accounts pursuant to the accounting rules, as follows:
  - Industrial property, such as trademarks, permits, production processes, models or other similar rights, acquired for consideration and which do not have a limited period of time: in equal shares, during the first 20 tax years after the initial recognition; and
  - Goodwill acquired in a business combination: in equal shares, during the first 15 tax periods after initial recognition.
- **Autonomous taxation.** The autonomous taxation rates for light good vehicles, motorcycles or motorcycles will be reduced from 10%, 27.5% and 35% to 8.5%, 25.5% and 32.5%.
- **Capitalisation funds.** Capitalisation funds managed by social security institutions referred to in articles 94 and 106 of Law 4/2007 of 16 January 2007, as well as the remuneration of public debt paid to these entities will be CIT exempt.
- **Remuneration of public debt.** The remuneration of public debt will also be CIT exempt when paid to social security institutions.

## VAT

In what concerns Value Added Tax (**VAT**), the following proposed changes stand out:

- **End of Zero VAT.** The basic food basket will no longer benefit from the zero VAT rate approved to mitigate the effects of inflation.
- **Assistance to disabled people.** The provision of services that consist of providing a visit, guided or not, to different events, of a recreational and cultural nature, to people accompanying others with a degree of permanent disability, duly proven by a medical certificate of multipurpose disability issued under the terms of the applicable legislation, equal to or greater than 60%, and on which they depend for their visit, will be VAT exempt.
- **Goods and services subject to intermediate tax.** Juices, nectars and carbonated waters, when supplied within the scope of catering, will benefit from the intermediate fee.

## SPECIAL CONSUMPTION TAXES

Rules on special consumption taxes will also change as follows:

### PETROLEUM AND ENERGY PRODUCTS DUTY (ISP)

- **Coloured and marked diesel.** The special rules approved in relation to the use of coloured and marked diesel by small farmers, holders of family farming status, small fish farmers and for small-scale artisanal and coastal fishing using coloured diesel and marked with an annual consumption of up to 2,000 litres, of 0.06 euros per litre on the reduced rate applicable to the equipment used, will remain in force in 2024. This subsidy will be increased by 0.04 euros per litre for small farmers with family farming status.

- **Artisanal fisheries, coastal fisheries, small fish farmers and sea salt extraction companies.** A subsidy corresponding to the discount on the final price of gasoline consumed equivalent to that resulting from the reduction in the rate applicable to diesel consumed in the respective activity remains in force in 2024. The subsidy corresponding to the discount on the final price of liquefied petroleum gas (LPG) equivalent to that resulting from the reduction in the rate applicable to diesel consumed in the respective activity will also be maintained.
- **Products used in the production of electricity, electricity and city heat or gas (with the exception of biofuels, biomethane, green hydrogen and other renewable gases):**
  - Products falling within CN codes 2710 19 62 to 2710 19 67 and CN 2710 20 32 and 2710 20 38, used for the production of electricity and cogeneration, or city gas on the mainland, will be taxed at a rate corresponding to 100% of the ISP rate and a rate corresponding to 100% of the CO2 emission surcharge;
  - Products falling within CN codes 2710 19 43 to 2710 19 48, CN 2710 20 11 to 2710 20 19, CN 2710 19 62 to 2710 19 67, CN 2710 20 32 and 2710 20 38, consumed in the Autonomous Regions of the Azores and Madeira and used in the production of electricity, electricity and heat (cogeneration), or city gas, by entities that carry out these activities as their main activity, will now be taxed at a rate corresponding to 75% of the ISP rate and with a rate corresponding to 75% of the additional charge over CO2 emissions, an increase foreseen in the previous State Budget. An increase to 100% will take place on 1 January 2025;
  - Products falling by CN code 2711, used in the production of electricity, electricity and heat (cogeneration) or city gas, by entities carrying out such activities as their main activity, with the exception of those used in the autonomous regions, will be taxed at a rate corresponding to 50% of the ISP rate and at a rate corresponding to 50% of the additional charge over CO2 emissions, which had been foreseen in the previous State Budget;
  - Products falling under CN codes 2701, 2702, 2704, 2713 and 2711 12 11 which are used in installations subject to an agreement on the rationalization of energy consumption (ARCE), and fuel oil with a sulphur content of 0,5% or less, classified under CN codes 2710 19 62 and 2710 19 66, will be taxed at a rate corresponding to 65% of the additional charge over CO2 emissions. This change was already contemplated in the previous State Budget. On 1 January 2025, an increase to 100% is approved.

#### BEVERAGE FEES

- **Tax on alcoholic beverages.** The rates will be updated and will reach in case of (i) beers, between 9.64 euros/hl and 33.85 euros/hl, (ii) fermented, still, and sparkling beverages, 12.06 euros/hl, (iii) intermediate products, 87.92 euros/hl and (iv) spirits, 1,602.51 euros/hl. Regarding the rate for consumption in the Autonomous Region of Madeira, the rate increases to 1,379.07 euros/hl.
- **Tax on non-alcoholic beverages.** The taxable unit will be updated, and the tax rate will range from 1.16 euros/hl (sugar content less than 25g/l), 6.95 euros/hl (sugar content is less than 50g/l and equal to or greater than 25g/l), 9.26 euros/hl (sugar content less than 80g/l

and equal to or greater than 50g/l) and 23.18 euros/hl (sugar content equal to or greater than 80g/l). In liquid form, the values increase to €6.95/hl, €41.72/hl, €55.62/hl and €139.06/hl, respectively; and in the form of powder, granules or other solid forms increase to €11.59/hl, €69.53/hl, €92.71/hl and €231.78/hl per 100 kilograms of net weight, respectively.

#### TOBACCO TAX

- **Regular tobacco.** Increase of the specific element to EUR 151.88 and of the ad valorem element to 1%.
- **Heated tobacco.** Increase of the specific element to EUR 0.0935/g. The tax shall not be less than half of the equivalence-weighted minimum tax on cigarettes of 0.325 g of heated tobacco per unit of cigarette.
- **Cigars and cigarillos.** The mileage of cigars and cigarillos increases to €451.92 and €151.88 respectively.
- **Fine-cut tobacco, other smoking tobacco, snuff, chewing tobacco.** Increase of the specific element to €0.091/g, and the amount of the tax may not be less than two-thirds of the minimum tax on cigarettes weighted by the equivalence factor of 0.5g of those tobacco products per unit of cigarette.
- **Liquid for electronic cigarettes.** Introduction of a tax of €0.351/ml for nicotine-containing liquid and €0.175/ml for nicotine-free liquid. In nicotine liquids, the tax may not be less than 25% of the minimum on cigarettes weighted by the equivalence factor of 0,05 ml of liquids. In the case of nicotine-free liquids, the tax may not be less than 12.5 % of the minimum on cigarettes, weighted by the same equivalence factor.

#### VEHICLE TAX (ISV)

- **Rates.** The ISV rates applicable to cars, motorcycles, tricycles, and quadricycles, will be increased in relation to their cylinder capacity and environmental component.
- **Exemption for leased vehicles.** This exemption will only apply if there is an operating lease agreement in place.

#### SINGLE CIRCULATION TAX (IUC)

- **Rates.** The IUC rates applicable to all vehicles will be updated.
- **Old vehicles.** Increase of the IUC for passenger cars and mixed-use vehicles registered between 1981 and June 2007 and motorcycles, mopeds, tricycles, and quadricycles registered since 1992 due to carbon emissions.
- **Maximum ceiling.** The annual increase in the rates applicable to categories "A" and "E" may not exceed €25.

### REAL ESTATE TRANSFER TAX

The brackets used to calculate the Real Estate Transfer Tax (IMT) over the acquisition of urban property or units of urban property for housing purposes will be updated. As an example, the first bracket will be increased from €97,064 to €101,917.

## STAMP DUTY

Concerning stamp duty, we must highlight the following changes:

- **Primary residence mortgage loans.** The transactions involved in the temporary fixation of primary residence mortgage loans instalments and the capitalisation of principal and interest will be exempt of stamp duty.
- **Other exemptions.** Acts, contracts and transaction in which the Portuguese Development Bank (*Banco Português de Fomento*) is an intervening party or a recipient will be exempt.

## SPECIAL CONTRIBUTIONS

The State Budget includes the following proposals:

- **Special contributions.** The special contributions that were in force in 2023 will continue to apply in 2024, including:
  - Audiovisual contribution;
  - Banking sector contribution;
  - Banking sector solidarity surcharge;
  - Pharmaceutical industry contribution; and
  - Extraordinary contribution over suppliers of the National Health Service of medical devices.
- **Ready-to-eat meals single-use packaging contribution.** In addition to the extension of this contribution to other types of packaging (i.e. ready-to-eat and takeaway packaging or packaging of ready-to-eat meals at the point of sale to the consumer), the applicable rate is reduced from €0.30 to €0.10 per package, plus VAT.
- **Energy sector extraordinary contribution.** The extraordinary contribution on the energy sector (EESC) will remain in force in 2024 with some changes, including the following:
  - Operators that transport crude oil and petroleum products will be taxed only when more than 50% of their annual turnover derives from this activity; and
  - Assets that are qualified as substantial contributions in certain areas related to climate change and environmental protection by the Portuguese Environment Agency, I. P. and in accordance with the European Scheme for the Promotion of Sustainable Investment, should not be considered in the calculation of the contribution.

A contribution on very light plastic carrier bags equivalent to €0.04 plus VAT will be created for each lightweight carrier bag, in addition to the existing contribution applicable to lightweight carrier bags.

## TAX BENEFITS

The 2024 State Budget proposal includes the following changes to the Tax Benefits Statute (EBF):

- **Start-ups stock plans.** The PIT incentive applicable to stocks plan will be amended as follows:
  - The incentive will now be granted to entities that are eligible as *start-ups* in the year of approval of the respective plan;
  - If the employee loses the Portuguese resident status, the gains tax will no longer be calculated over the positive difference between the market value and the exercise price of the option or right, but rather under the terms set out in the PIT Code, being the income partially exempted up to the value of 20 times the value of the Social Support Index; however, the income will be computed for determining the rate applicable to the overall income;
  - The exemption will apply only once by the taxable person;
  - The governing bodies of the company responsible for the plan will no longer be excluded from the application of the incentive.
- **Waves increase incentive.** The 150% relief applicable to companies or businesses that increase salaries of employees under open-ended employment contracts will only apply to employees covered by a dynamic IRCT and provided that the remuneration increases by, at least, 5% above the guaranteed minimum monthly wage.
- **Companies' capitalisation incentive.** The tax relief applicable to the capitalisation of companies with headquarters or effective management in Portugal will be determined based on the average 12-month Euribor rate plus a spread of 1.5% (instead of the previous rate of 4.5%) or, in case of micro, small, medium-sized enterprise or mid-cap enterprise, 2%.
- **Residential leases entered before the Urban Lease Law.** Rents charged under these leases will be PIT exempt for the duration of the contracts. A municipal property tax (IMI) exemption will also apply.
- **Urban buildings for housing purposes.** Buildings or parts of buildings built as new, expanded, improved or acquired for consideration will be IMI exempted, upon the first transfer, in the part intended for lease for the tenant's primary residence.
- **Scientific research and innovation incentive.** Taxpayers who become tax residents and have not been residents in any of the previous five years may benefit from a flat rate of 20% over employment and self employment provided they:
  - Develop (i) a career of higher education and scientific research, (ii) a qualified job within the scope of the productive investment contractual benefits regime or (iii) a research and development job;
  - Present a level 8 of the National Qualifications Framework or higher.

This incentive may only be used once by the same taxable person.

- **First-time set-up awards for young farmers.** A coefficient of 0.1 is applied to the first-time set-up premiums for young farmers, and this income is considered only at 50% when covered by the organised accounting system.
- **Common Agricultural Policy.** Taxable persons receiving subsidies or subsidies under the CAP in 2024 may opt for their taxation in that year. The annual tax return may be submitted whenever the payment of the allowances or allowances takes place after the normal deadline for filing such returns.
- **Expiry of tax benefits.** The 2024 State Budget proposal includes, in the rule that excludes the 5-year limitation period for certain tax benefits, the benefit that refers to "capital gains obtained by non-residents".

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