MACE DO·· VITO RINO

TAX
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2025 STATE BUDGET PROPOSAL: TAX MEASURES

The 2025 State Budget Proposal includes an update of the PIT, RETT and special consumption tax brackets, as well as a reduction of the CIT general rate and incentives for salary increases and the capitalisation of companies.

As already announced, the Youth PIT will be extended to the age of 35 and will no longer require completion of a cycle of studies.

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The Portuguese Government presented the State Budget Proposal for 2025. It will be discussed and negotiated in the Parliament. The final vote on the State Budget proposal is scheduled for 29 November 2024.

In this newsletter, we summarise the main tax changes contemplated in this proposal.

PERSONAL INCOME TAX

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

- **PIT brackets update.** The PIT brackets will be updated according to the following table:

Bracket	Taxable Income 2024 (€)	Taxable Income 2025 (€)
1	Less than 7.703	Less than 8.059
2	From 7.703 to 11.623	From 8.059 to 12.160
3	From 11.623 to 16.472	From 12.160 to 17.233
4	From 16.472 to 21.321	From 17.233 to 22.036
5	From 21.321 to 27.146	From 22.036 to 28.400
6	From 27.146 to 39.791	From 28.400 to 41.629
7	From 39.971 to 43.000	From 41.629 to 44.987
8	From 43.000 to 80.000	From 44.987 to 83.696
9	More than 80.000	More then 83.696

- **Youth PIT**. The Youth PIT rules, which partially exempt young people's employment income (dependent or self-employed), are amended as follows:
  - Young people up to the age of 35 will now be eligible;
  - The condition of completing a cycle of studies no longer applies;
  - The PIT exemptions extend to the first 10 years of income, with the following limits:
    - 100% in the first year;

    - 75% from the second to the fourth years;
    - 50% from the fifth to the seventh years; and
    - 25% from the eighth to the tenth years.
  - The exempted income cannot exceed 55 times the value of the Social Support Index ("**SSI**") (*i.e.* €28.009,30).

  Taxpayers who (i) benefit or have benefited from the non-habitual resident regime, (ii) benefit or have benefited from the tax incentive for scientific research and innovation, (iii) have opted for the taxation applicable to former residents or (iv) do have tax debts will not be eligible.

- **Meal allowance**. The value of the meal allowance that is exempt from PIT, when given through meal vouchers, is increased from €9,60 to €10,20.
- **Withholding tax on supplementary work.** Income from overtime work obtained in Portuguese territory by non-residents will be exempt from withholding tax in respect of the first 100 hours (instead of the 50 hours provided for in 2024), with the 25% withholding tax applying to the part that exceeds that limit or number of hours. It is also planned that withholding tax will apply to 50% (and not all) of the monthly remuneration for overtime work.
- **Withholding tax on self-employment income.** The PIT withholding tax rate applicable to income from professional activities is reduced from 25% to 23%.
- **Autonomous taxation.** The reference value of light vehicles acquisition cost for the calculation of the autonomous taxation will be increased, with the rate of 10% being applicable when the costs are less than €30,000 (instead of €20,000) and the 20% rate being applicable when the costs are higher. Vehicles powered exclusively by electricity are not subject to this taxation.
- **Advance payments.** The total amount of advance payments due by self-employed persons will now be 65% (instead of 76.5%) of the legal basis.
- **Specific deductions from employment income and pensions.** How the specific deductions from category A and H income are calculated has been changed from a fixed amount of €4,104 (updated annually according to the value of the income) to a fixed amount of €4,104 (updated annually according to the value of the income).
- **Minimum subsistence amount.** The reference value for the minimum subsistence has been increased to the greater of €12,180 or 1.5 x 14 x SSI.

CIT

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

- **Reduction of CIT rate.** Reduction of the general CIT rate from 21% to 20% and, in the case of small and medium-sized companies and small and medium capitalization companies, from 17% to 16% on the first €50,000 of taxable income.

- **Health or sickness insurance costs**. Expenses associated with health or sickness insurance for employees and their families will be tax deductible at a rate of 120% when assessing the taxable net income.

- **Autonomous taxation**. The rates of autonomous taxation for light passenger and cargo vehicles, as well as motorcycles, will be reduced by 0.5% and the cost limits will be increased by €10,000, as follows:

  - For vehicles costing up to €37,500 (instead of €27,500) the rate will be 8% (instead of 8.5%);

  - For vehicles costing between €37,500 and €45,000 (instead of €27,500 to €35,000) the rate is 25% (instead of 25.5%); and

  - For vehicles costing €45,000 or more (instead of €35,000) the rate is 32% (instead of 32.5%).

  It is also planned to exclude entertainment expenses related to shows from the scope of autonomous taxation.

VAT

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

- Extension, until December 31, 2025, of the VAT exemption (with the right to deduct the tax) applicable to transfers of certain goods, when normally used in the context of agricultural production activities, such as fertilizers and soil improvers.

- Legislative authorization for the Government to amend in 2025 item 2.18 of List I annexed to the VAT Code to apply a reduced rate to the construction or rehabilitation works on residential properties, to be defined according to criteria established by members of the Government. Properties with a value exceeding the established limit will be excluded from the scope of this rate.

SPECIAL CONSUMPTION TAXES

Rules on special consumption taxes will also be amended as follows:

PETROLEUM AND ENERGY PRODUCTS DUTY (ISP)

- Certain oil and energy products used in facilities subject to an energy consumption rationalization agreement will now be taxed at 100% instead of 65%.

TOBACCO TAX

- The total minimum reference tax to be applied to tobacco and in force each year will now correspond to the value of the national average tobacco tax.

- The tax on cigarillos will now be 50% of the minimum tax on cigarettes instead of 100%.

VEHICLE TAX (ISV)

- A rate of 25% will be applied to passenger cars registered in another EU Member State between 2015 and 2020 and with hybrid engines.

- When the taxpayer disagrees with the provisional assessment issued by customs, the fee for requesting a recalculation is waived.

REAL ESTATE TRANSFER TAX

In what concerns the Real Estate Transfer Tax ("**RETT**"), the State Budget 2025 Proposal provides an update of the brackets for calculating RETT applicable to the transfer of urban buildings or autonomous fractions of urban buildings intended exclusively for residential use.

STAMP DUTY

Regarding stamp duty, we highlight the extension to 2025 of the exemption applicable to certain mortgage loan restructuring transactions, as well as transactions to temporarily fix the instalment and capitalise deferred amounts.

SPECIAL CONTRIBUTIONS

The 2025 State Budget Proposal extends the following special contributions to the year 2025:

- Audiovisual contribution;
- Banking sector contribution;
- Banking sector solidarity surcharge;
- Pharmaceutical industry contribution; and
- Extraordinary contribution to suppliers of the National Health Service of medical devices.

TAX BENEFITS

The 2025 State Budget proposal includes the following proposed changes to the Tax Benefits Statute:

- **Incentives for salary increases**. The costs related to salary increases for workers with a permanent employment agreement will be considered at 200% (instead of the 150% foreseen for 2024), provided that the following conditions are met:
  - The increase in the average annual base salary per employee is at least 4.7% (instead of 5%); and
  - An average increase of at least 4.7% in the annual base salary of employees who are paid the company's average annual salary or less.

  For this purpose, the expenses related to (i) workers covered by a Collective Bargaining Agreement signed or updated less than three years ago and (ii) amounts spent by the employer on the worker by way of base salary and social security contributions will be considered. The maximum deduction from taxable income per employee is increased to five times (instead of four times) the guaranteed minimum monthly salary.
- **Incentives for the recapitalisation of companies**. The 20% relief provided for capital contributions in cash to a company in which a shareholding is held, applied to the gross amount of profits or capital gains resulting from the sale of that shareholding, now covers

any company and not only to companies with a loss of half their share capital. However, entities subject to supervision by the Bank of Portugal or the Insurance and Pension Funds Supervisory Authority, as well as branches in Portugal of credit institutions, other financial institutions or insurance companies, are excluded from this provision.

- **Incentives for the capitalization of companies**. An amount corresponding to the 12-month Euribor rate plus a spread of 2% (instead of 1.5%) can be deducted when determining taxable net income. This measure will now apply to any company, instead of being restricted to small or medium-sized enterprises or small-medium capitalization companies. The relief will be increased by 50% in 2025.
- **PIT and social security exemption for performance rewards**. If the employer complies, in 2025, with the conditions laid down for the application of the tax incentive for salary increase, there may be an exemption from PIT and social security contributions (SS) on the amounts paid in 2025 to employees as performance and productivity rewards, profit-sharing and balance-sheet bonuses, up to a limit of 6% of the annual base salary.