

# THE 2024 PORTUGUESE STATE BUDGET: TAX MEASURES

*The Portuguese State Budget for 2024 ended the non-habitual resident regime but approved similar tax incentives to employees of startups and R&W related activities.*

*Concerning corporate income tax, the tax support measures for start-ups stand out.*

The Parliament approved the [State Budget for 2024](#) (the “**2024 State Budget**”).

In this newsletter, we summarize the main tax changes set out in the 2024 State Budget.

## PERSONAL INCOME TAX

Regarding Personal Income Tax (**PIT**), the main changes are as follows:

- **Former Residents.** The former resident tax regime, which includes a 50% tax exemption applicable to employment income and professional income, has been 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.

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- **Deduction of training and education expenses.** The expenses incurred in connection with professional training will be deductible by up to 30%, with a limit of €800.
- **Deduction of union's contributions.** Union's contributions are deductible from gross income in categories A and H, up to their total value. This deduction applies to each taxpayer who has earned them, excluding contributions considered as compensation for health, education, support for the elderly, housing, insurance, or social security benefits if they do not exceed, for each taxpayer, 1% of gross income in this category, and are increased by 100% (instead of 50%).
- **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 incentive.** 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 has been revoked. Despite the revocation, the 2024 State Budget allows the registration as a non-habitual resident until 31 December 2024, provided that the non-resident present one of the following documents:
  - Promissory employment agreement signed by 31 December 2023;
  - Visa or residency permit valid until 31 December 2023;
  - Visa application submitted by 31 December 2023;
  - Lease agreement in respect of a property located in Portuguese territory signed until the 10th of October 2023;
  - Reservation contract or promissory agreement for the acquisition of real estate located in Portuguese territory signed until the 10th of October 2023; or
  - Enrolment or registration for dependents in an educational establishment domiciled in Portuguese territory completed until the 10th of October 2023.
- **Procedures and tax settlement.** If the taxpayer fails to submit an annual tax return after being notified to do so, any PIT retained at source will be considered, as well as the application of the existence minimum and any deductions from the taxable amount relating to expenses of which the Portuguese Tax Authorities are aware to make an automatic tax settlement.
- **Statement of foreign income and assets.** The 2024 State Budget establishes that the income subject to flat rates or not subject to PIT, more than €500, must be reported in the annual tax return, as well as the assets held in countries, territories, or regions with a clearly more favorable tax regime.

- **Partial deduction of domestic worker's remuneration.** The 2024 State Budget establishes a tax relief equal to 5% of the amount paid by any member of the household as remuneration for domestic work, with an overall cap of €200.
- **Increased deduction of rents.** The tax relief in respect of rents paid for permanent residence property, relating to lease agreements entered under the Urban Lease Framework, will be subject to a cap of €600 instead of the current cap (€502).
- **Progressive withholding tax rates applicable to independent workers.** The 2024 State Budget requires the Government to implement the necessary software changes to apply progressive withholding tax rates to independent workers. However, for the time being, the current withholding tax rates will remain the same.

## CORPORATE INCOME TAX

In terms of Corporate Income Tax (**CIT**), the following changes should be highlighted:

- **CIT rate applicable to startups.** A 12.5% CIT rate is now applicable to the first €50,000 of taxable income obtained by entities that qualify as startups and that meet the following cumulative conditions:
  - Are innovative companies with a high growth potential or which have been recognized 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 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 recognized in the taxpayer's 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: 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%.
- **Autonomous taxation of electric vehicles.** Automobiles powered exclusively by electricity, whose purchase cost exceeds the amount defined by ministerial ordinance, will now be subject to autonomous taxation at a rate of 10%.
- **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.

- **Deduction under the incentive scheme for company capitalization.** The deduction provided for under the tax incentive scheme for the capitalization of companies is increased by 50% in 2024, 30% in 2025 and 20% in 2026, with the amount determined being subject to the following limit:
  - The value of €4,000,000; or
  - 30% of profit before depreciation, amortization, net financing costs and taxes.
- **Increase in electricity and gas costs.** For tax periods commencing on or after 1 January 2023 and 1 January 2024, the electricity and gas costs of the companies subjected to CIT primarily carrying out a commercial, industrial or agricultural activity and non-resident companies subject to CIT with a permanent establishment in Portugal can be increased by 20%. This support does not apply to taxable persons carrying out economic activities that generate at least 50% of turnover in the domain of:
  - Production, transport, distribution and trade of electricity or gas; or
  - Manufacture of petroleum products refined or from waste, and of agglomerated fuels.
- **Increase in costs associated with agricultural production.** From 1 January 2024, a 40% increase may be applied to costs and losses incurred or supported by the companies subjected to CIT who are primarily engaged in commercial, industrial or agricultural activity and non-residents with a permanent establishment relating to the acquisition of:
  - Organic and mineral correctives and fertilizers;
  - Flours, cereals and seeds, including mixtures, residues and waste from the food industries, and any other products suitable for feeding livestock, poultry and other animals, as referred to in the Codex Alimentarius, regardless of breed and functionality in life, intended for human consumption;
  - Water for irrigation; and
  - Glass bottles.
- **Social Security Financial Stabilisation Fund (FEFSS).** 2% of the rates of CIT revenue is consigned to the FEFSS. The consignment is made as follows:
  - The amount calculated from the CIT liquidation for 2023, under the terms of article 233(1) and (2)(a) of Law 24-D/2022, of 30<sup>th</sup> December, deducted from the transfer made in that year; and
  - 50% of CIT revenue, based on the CIT revenue entered in the map relating to the economic classification of public revenue in the Central Administration subsector.

## VAT

In terms of Value Added Tax (**VAT**), the following changes should be mentioned:

- **Exemptions on internal transactions.** VAT is now exempt on the supply of services consisting of guided or unguided visits to libraries, archives, museums, art galleries, castles, palaces, monuments, parks, forest perimeters, botanical gardens, zoos and the like belonging to the State, other legal persons governed by public law or non-profit organizations, provided that they are carried out solely and exclusively through their own agents, and on the transfer

of goods closely related to the supply of these services, as well as tickets to singing, dancing, music, theatre, cinema, circus shows, tickets to exhibitions, tickets to zoos, botanical gardens and public aquariums, when provided free of charge, 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 whom their visit depends.

- **VAT refund in congress, fair and exhibition organization activities.** Entities whose main economic activity is the organization of fairs, congresses, and other similar events and/or travel agencies can now benefit from a total or partial refund of the VAT paid. This refund will only apply to expenses relating to the organization of congresses, fairs, exhibitions, seminars, conferences and similar events.
- **Non-duplication of VAT refunds.** VAT refunds to private social solidarity institutions, the Armed Forces, security forces and services and firefighters will only occur in the following cases, to avoid duplication of benefits:
  - The input VAT is not deductible; and
  - The equivalent amount has not been refunded under another scheme.

## SPECIAL CONSUMPTION TAXES

In terms of excise duties, the following changes should be noted:

### PETROLEUM AND ENERGY PRODUCTS DUTY (ISP)

- **Coloured and marked diesel.** The special rules approved about the use of colored and marked diesel by small farmers, holders of family farming status, small fish farmers, and for small-scale artisanal and coastal fishing using colored diesel and marked with an annual consumption of up to 2,000 litres, of 0.06 euros per liter 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 (except for biofuels, biomethane, green hydrogen and other renewable gases):
  - 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;
  - Falling within CN codes NC 2707 99 99, 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 CO<sub>2</sub> emissions, an increase foreseen in the previous State Budget. An increase to 100% will take place on 1 January 2025;

- 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, except 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 CO<sub>2</sub> emissions, which had been foreseen in the previous State Budget;
- 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 CO<sub>2</sub> 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.
- **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 ad valorem component of both is maintained at 25%. A thousand cigars and cigarillos increase to 451.92 euros and 151.88 euros 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

Regarding the Single Circulation Tax (**IUC**), the 2024 State Budget provides for a general increase in the IUC rates of around 3% applicable to all vehicles, with no maximum ceiling on the annual increase in rates for any category.

### REAL ESTATE TRANSFER TAX

Regarding Real Estate Transfer Tax (**RETT**), the following changes stand out:

- **RETT taxable basis.** The amount on which RETT is levied on the acquisition of an urban building or autonomous fraction of an urban building intended exclusively for own and permanent habitation and on the acquisition of an urban building or autonomous fraction of an urban building intended exclusively for habitation which is not covered by the previous option is changed, with the minimum amount on which RETT is levied changing from € 97,064 to € 101,917 and the maximum from € 1,050,400 to € 1,102,920.

### MUNICIPAL PROPERTY TAX

With regards to Municipal Property Tax (**MPT**), the 2024 State Budget introduces the following change:

- **Exempt buildings.** Rural buildings and buildings or parts of urban buildings intended for the permanent residence of the taxable person, or their household are exempt from MPT, provided that the total gross income of the household does not exceed 2.3 times the value of 14 Social Support Index and the total taxable value of all rural and urban buildings belonging to the household does not exceed 10 times the value of 14 Social Support Index.

According to Ministerial Order 421/2023, the Social Support Index for 2024 will be €509.26, which means that, for the exemption mentioned above, the total gross household income cannot exceed €16,398.

### STAMP DUTY

Concerning stamp duty, the following measures stand out:

- **Fixing of mortgage loan installments.** The events provided for in item 17.1 of the general table (use of credit) are now exempt from stamp duty in the context of operations to temporarily fixing of the installments and capitalization of the deferred amounts under loans for the purchase or construction of a permanent home.

- **Donations between family members.** Donations between spouses or civil partners, descendants, and ascendants, up to the amount of €5,000, are now expressly excluded from the taxable basis of stamp duty. However, the exemption applicable to gratuitous transfers (donations and heritages) between spouses or civil partners, descendants, or ascendants, will remain regardless of the amount.
- **Other exemptions:**
  - The State will be exempt from stamp duty on transactions carried out through the General Directorate for Treasury and Finance, regardless of who is liable for the tax; and
  - Acts, contracts, and operations in which Banco Português de Fomento is an intervener or recipient are also exempt.

## SPECIAL CONTRIBUTIONS

The 2024 State Budget extends the following special contributions to 2024:

- Contribution to the banking sector;
- Additional solidarity levy on the banking sector;
- Contribution to the Pharmaceutical Industry; and
- Extraordinary contribution to suppliers of medical devices to the National Health Service (NHS).

Special contributions also include:

- **Contribution to single-use packaging for ready-to-eat meals.** In addition to extending the type of packaging covered by this contribution (i.e. ready-to-eat and take-away packaging or packaging for ready-to-eat meals at the point of sale to the consumer), the applicable rate is €0.10 per package, plus VAT.
- **Extraordinary contribution to the energy sector.** The extraordinary contribution to the energy sector (CESE) will remain in force in 2024 with some changes:
  - Operators transporting crude oil and petroleum products that are part of refining operator economic groups are taxed, regardless of the percentage of total annual turnover; and
  - Items which form part of the assets of the taxable person liable for this contribution and which qualify as substantial contributions in certain areas linked to climate change and environmental protection by the Portuguese Environment Agency, I.P. and under the European regime for the promotion of sustainable investment, should not be considered when calculating the contribution.
- **Contribution to lightweight plastic bags.** A contribution equivalent to €0.04 plus VAT is created for each very light plastic bag, in addition to the existing contribution on light plastic bags.

## TAX BENEFITS

The 2024 State Budget includes the following changes:



- **Start-ups stock plan incentive.** 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.
- **Wages 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.
- **Incentive to companies' capitalization.** The tax incentive for capitalization of companies is amended as follows:
  - When determining the taxable profit of commercial or civil companies in commercial form, cooperatives, public companies, and other legal persons governed by public or private law with registered offices or effective management in Portuguese territory, an amount corresponding to the application of the 12-month Euribor rate may now be deducted, which corresponds to the average for the tax period, calculated based on the last day of each month, plus a spread of 1.5%, to the amount of the net increases in eligible equity (instead of the previous 4.5%), and if the taxpayer qualifies as a micro, small, medium-sized or mid-cap company, the spread to be considered will be 2%;
  - to apply this benefit, only net increases in equity that occur in tax periods beginning on or after 1 January 2023 are considered;
  - The maximum deduction ceiling of €2,000,000 is increased to €4,000,000.
- **Residential leases entered before the Urban Lease Law.** Rents charged under these leases will be PIT-exempt for the duration of the contracts. An MPT 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 MPT exempted, upon the first transfer, in the part intended for lease for the tenant's primary residence.
- **Incentives to scientific research and innovation.** 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 for 10 years provided they are:
  - Professors at colleges or scientific researchers under certain conditions;

- Employees or members of corporate bodies in legal entities recognized as centres of technology and innovation;
  - Members of corporate bodies in companies that benefit from investment contractual benefits;
  - "Highly qualified" employees in (i) companies with relevant investments that benefit or have benefited from investment tax benefits and (ii) industrial and service companies that export at least 50% of their turnover;
  - Qualified employees and members of corporate bodies in entities that carry out economic activities recognized by AICEP, EPE or IAPMEI, IP as relevant to the national economy;
  - Personnel whose costs are eligible under the R&D tax incentive system;
  - Employees and members of corporate bodies in start-ups; and
  - Employees or other professionals developed in the autonomous regions, to be defined by the respective regional governments.
- **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 organized 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.
  - **Cooperation agreements and relations.** Public entities that pursue educational, cultural or scientific purposes, within the scope of international cooperation agreements in these areas, when there is reciprocity, are CIT exempt, and the member of the Government responsible will issue an order attesting this reciprocity.
  - **Benefits applicable to the entities licensed in the Madeira Free Trade Zone.** These benefits will be extended for one year, covering the income earned between 1 January 2015 and 31 December 2024, continuing to be taxed at a rate of 5% until 31 December 2028.
  - **Incentive for the sale of real estate to the State.** Not only gains from the sale of real estate, but also from the sale of land for construction to the State, autonomous regions, public corporate entities in the housing sector, and local authorities will benefit from this exemption from PIT and CIT taxation.

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