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GUIDE

State Budget Law Proposal for 2025

Law Proposal 26/XVI/1


CUATRECASAS

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1. Introduction

Cuatrecasas provides a summary of the main measures included in the 2025 State Budget Law Proposal (“2025 State Budget Proposal”) recently submitted to Parliament and highlights those that may have a direct impact on its clients.

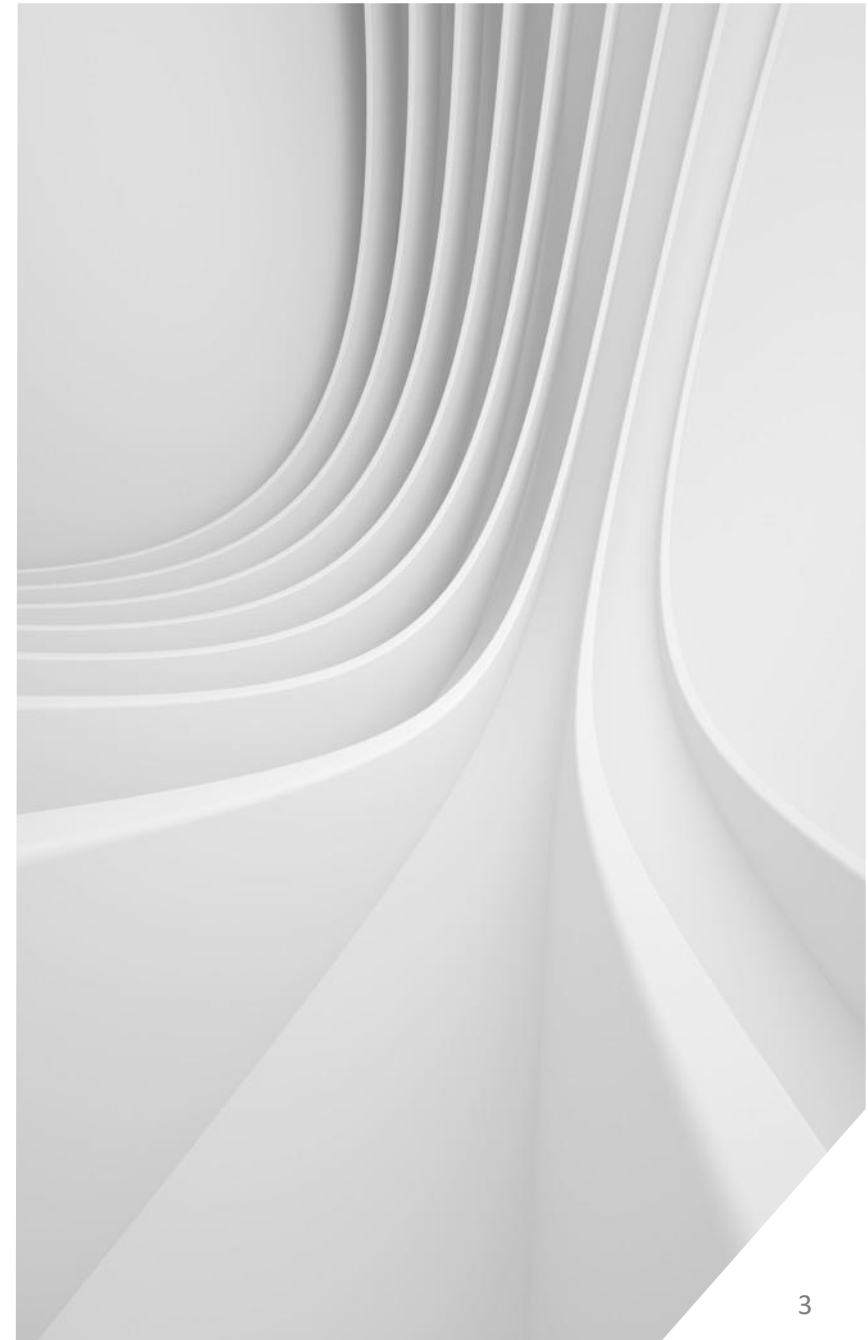
The 2025 State Budget Proposal does not contain any disruptive fiscal policy measures, and the budget is limited to a number of measures embodying the three fundamental pillars announced by the government: (i) protecting family incomes, (ii) attracting and retaining qualified talent, and (iii) promoting the competitiveness of the economy.

The 2025 State Budget Proposal estimates a 3.7% growth in tax revenue. It bases this increase on the forecast growth of the economy and demand, with revenue from indirect taxes and contributions forming the basis for the increase.

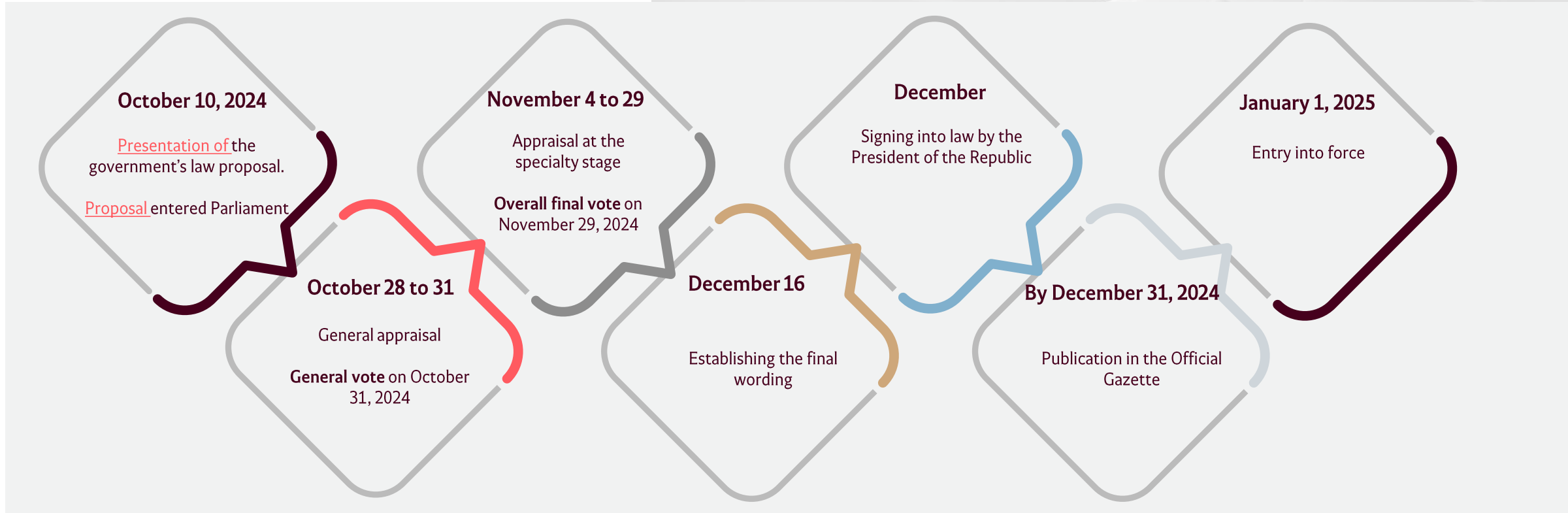
A decrease in revenue from direct taxes is expected and some measures in particular have shaped this decrease, for example, the updating of the personal income tax (“IRS”) brackets to above the estimated inflation rate for 2025, the expansion of the Youth IRS regime (“*IRS Jovem*”), or the—albeit conditional—exemption on productivity bonuses, performance bonuses, profit sharing, and non-regular balance sheet bonuses. Regarding corporate income tax (“IRC”), we highlight the reduction of the highest nominal rate from 21% to 20%; the reduction in the rates of the autonomous levy on vehicle expenses; the increase in the limits on the respective acquisition costs; and the strengthening of the tax increase for the company capitalization incentive (“ICE”).

The 2025 State Budget Proposal left out possible changes to tax justice and VAT, as well as a whole range of more ambitious investment measures, although additions may still be made at the specialty stage of the parliamentary debate.

We will be following the discussion of the proposed law in the Portuguese parliament and any changes that may be made to it at the specialty stage, paying close attention to the impacts that these changes may have on Cuatrecasas’s clients.



2. Timeline



3. Measures that impact families and young people

3.1 *IRS Jovem*

The State Budget Proposal introduces substantial changes to the *IRS Jovem* regime, broadening the range of taxpayers covered and extending the duration and amount of the benefit.

Extending the benefit

The IRS partial exemption for category A and B income now covers taxpayers **up to the age of 35**, provided they are not considered dependent, during the **first 10 years in which they obtain income**. They no longer need to complete any cycle of studies as a condition for applying for the regime.

Application period

The exemption applies in the first year in which the taxpayer opts for the regime in their tax return and in the following nine years, subject to the maximum 35-year age limit. The exemption does not apply in years in which the taxpayer obtains no category A or B income, but can be resumed in the remaining years in which this income is obtained, up to a total exemption period of 10 years (without exceeding the age limit).

Calculating the exemption

The annual exemption, **limited to 55 times the social support index ("IAS")**, is calculated as follows:

- 100% in the first income year
- 75% in the second to the fourth income year
- 50% in the fifth to the seventh income year
- 25% in the eighth to the tenth income year

Exclusions from the regime

The regime excludes taxpayers that:

- benefit or have benefited from the non-habitual resident regime;
- benefit or have benefited from the tax incentive for scientific research and innovation established in article 58-A of the Tax Benefits Statute (EBF);
- have opted to be taxed under the regime for former residents (established in article 12-A of the IRS Code); or
- do not have their tax affairs in order.

What about young people that already earn category A or B income?

For the purpose of applying the exemption each year, taxpayers that have already started their professional or business activity are classified under the subparagraph corresponding to the year after the number of years in which they have already obtained category A or B income. The years in which they were considered dependent are disregarded.

Non-application of withholding tax

To avoid withholding tax being levied on exempt income under this regime, taxpayers must inform the paying entities that they are eligible for the exemption, indicating which income year they are in.

How do I know if I am covered by the exemption?

The Tax and Customs Authority provides information about who can benefit from the exemption (i) in the automatic tax return, or (ii) when the taxpayer's tax return is pre-filled.

3. Measures that impact families and young people

3.2 Updating the IRS tax brackets

The cutoffs of the taxable income brackets will be raised by 4.62%, while the current general IRS rates will be maintained, as shown in the table below:

Taxable income (€)	Normal rate	Marginal rate
< 8,059	13.00%	13.00%
8,059 – 12,160	16.50%	14.180%
12,160 – 17,233	22.00%	16.482%
17,233 – 22,306	25.00%	18.419%
22,306 – 28,400	32.00%	21.334%
28,400 – 41,629	35.50%	25.835%
41,629 – 44,987	43.50%	27.154%
44,987 – 83,696	45.00%	35.408%
> 83,696	48.00%	-

3. Measures that impact families and young people

3.3 Withholding tax - IRS

- **Category A - overtime work**

Nonresidents

The withholding tax exemption on overtime income earned by nonresidents up to the amount of the guaranteed minimum monthly salary will now apply to the first 100 hours of work or services provided, instead of the current 50 hours of work.

Residents

The withholding tax rate to be applied to income earned from overtime work will now be 50% of the rate applicable to regular employment income for the month in which it is paid or made available, regardless of the number of hours of overtime work (currently this reduction only applies to income for overtime work from the 101st hour, inclusive).

- **Category B - Professional activities specifically envisaged in the table in annex I to Ordinance 1011/2001 of August 21**

The proposal is to reduce the IRS withholding tax rate from 25% to 23% for gross income from the professional activities specifically envisaged in the table in annex I to Ordinance 1011/2001 of August 21, when payable by entities that keep or should keep organized accounts.

3. Measures that impact families and young people

3.4 Incentivizing the recapitalization of companies

- IRS taxpayers that make capital contributions in cash to a company in which they hold a stake may **deduct up to 20% of these contributions** from the gross amount of the profits made available by that company. If they sell that stake, they may deduct it from the difference between the capital gains and capital losses made under article 10(1)(b) of the IRS Code. **This regime will now apply even when half of the company's share capital has not been lost**, in accordance with article 35 of the Companies Code (which is required according to the current wording).
- The deduction continues to be applied when calculating the taxable income for the year in which the contributions were made and in the following five years.
- However, the incentive no longer applies when the contributions are made to entities subject to the supervision of the Bank of Portugal, the Insurance and Pension Funds Supervisory Authority, or branches in Portugal of credit institutions, other financial institutions, or insurance companies.

3. Measures that impact families and young people

3.5. Other measures

- **Meal allowance in card form:** The proposal is to increase the amount of the meal allowance that is not subject to taxation, when allocated in the form of meal vouchers, to a daily sum of €10.20 (currently €9.60), i.e., **only the portion that exceeds** the legally established limit **by 70%** (as opposed to the current 60%) will qualify as employment income (currently €6.00).
- **Specific deduction for employment income and pension income (categories A and H):** The proposal is to increase the specific deduction for employment income and pension income to **8.54 times the amount of the IAS**.
- **Payments on account:** The proposal is to reduce the amounts of payments on account payable by category B income earners to **65%** of the amount calculated using the current formula.
- **Autonomous levy:** The proposal is to update the **reference value from €20,000 to €30,000** for autonomous levy rates for deductible costs related to representation expenses, light passenger vehicles, mixed light passenger vehicles, or mixed vehicles, borne by IRS taxpayers who keep or should keep organized accounts for their business or professional activities. Additionally, a proposal has been made to change the concept of entertainment expenses to exclude costs incurred for shows.
- **Minimum subsistence level:** The proposal is to change the reference value of the minimum subsistence level **to the higher of €12,180 or 1.5 x 14 x IAS**.

4. Measures that impact companies and workers

4.1 Reducing the corporate income tax (IRC) rate

- The IRC rate will be reduced by one percentage point as follows:

From 21% to 20%, for the general rate

From 17% to 16%, for SMEs and Small Mid Caps, on the first €50,000 of taxable income

4.2 Reducing the autonomous levy (*tributação autónoma*) rates and increasing acquisition cost limits

- The autonomous levy rates for expenses incurred or borne by light passenger vehicles, certain light goods vehicles, motorcycles or mopeds will be reduced as follows:

From 8.5% to 8% for vehicles with an acquisition cost of less than €37,500

From 25.5% to 25% for vehicles with an acquisition cost between €37,500 and €45,000

From 32.5% to 32% for vehicles with an acquisition cost of €45,000 or more

- The acquisition value limits used to determine the applicable rate were increased by €10,000, thus allowing for a greater reduction of autonomous levy costs.
- In addition, expenses incurred for shows offered to clients/suppliers have been removed from the concept of entertainment expenses and are therefore no longer subject to the autonomous levy.
- Finally, the 2025 State Budget Proposal again establishes that the autonomous levy is not increased for taxpayers that have a tax loss when certain conditions are met concerning the period in which the activity started, the taxable profit obtained in one of the three previous tax periods, and compliance with reporting obligations.

4. Measures that impact companies and workers

4.3 Productivity bonuses, performance bonuses, profit sharing, and balance sheet bonuses

- The 2025 State Budget Proposal proposes an IRS exemption and an exclusion from social security contributions up to a limit of 6% of the employee's basic annual salary, on the sums paid or made available to employees or members of corporate bodies in 2025, borne by the employer on a voluntary and non-regular basis, as productivity bonuses, performance bonuses, profit sharing, and balance sheet bonuses.
- This exemption is conditional on the employer having provided an eligible salary increase in 2025 for the purposes of applying the tax incentive for salary increases established in article 19-B of the EBF (4.7% and subject to certain conditions).
- The employer must expressly mention compliance with that condition in the annual income statement to be delivered to the employee by January 20, 2026.
- The IRS withholding rate to be applied is the one applicable to the monthly employment income for the month in which the payment is made or made available.

4.4 Health insurance

- The expenses incurred for health or sickness insurance for the benefit of workers, pensioners, or their families, as a social benefit, will be increased by 20%.

4. Measures that impact companies and workers

4.5 Tax incentive for salary increases

- The 2025 State Budget Proposal again reformulates the tax incentive for salary increases and simplifies the criteria for its application, bringing some concepts into line with those defined by labor legislation.
- The amendments to the tax benefit include the following:

The costs have been increased from 50% to 100%.

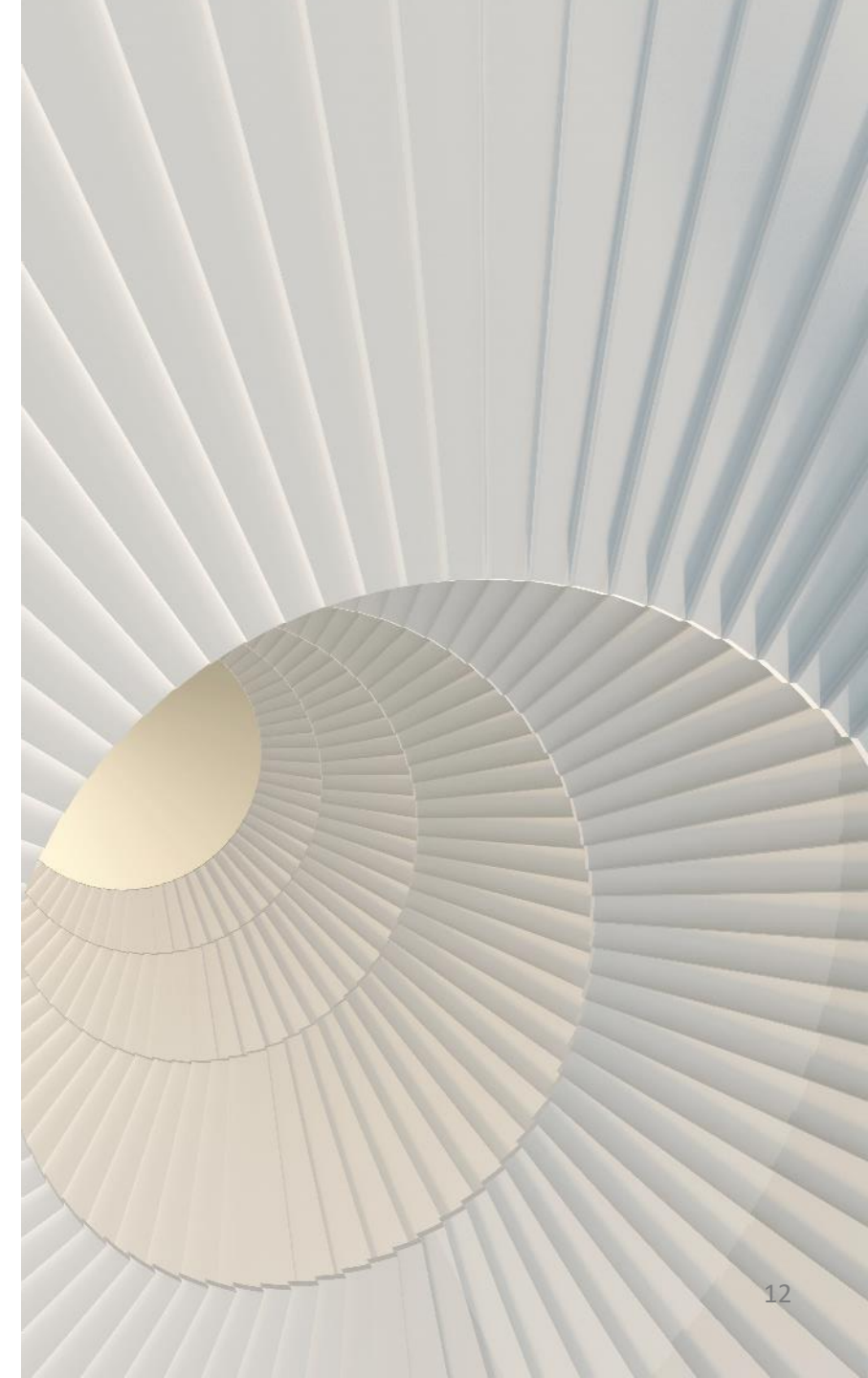
The salary increase requirement has been reduced from 5% to 4.7%.

The possible annual increase has gone from four to five times the Guaranteed Minimum Monthly Salary (“RMMG”).

- The concept of salary range has been eliminated and the benefit will now be contingent on an average increase of at least 4.7% over the annual basic salary of employees earning less than or equal to the company’s average annual basic salary.
- The number of separate definitions of the concepts for applying the benefit has been reduced. These have been replaced by direct references to the Labor Code – for example, the former concept of fixed remuneration has been replaced by the basic remuneration concept established in article 258 of the Labor Code; the concept of dynamic collective bargaining instrument (“IRCT”) will be the one defined in article 2 of the Labor Code.

4.6 Incentivizing company capitalization

- The taxable income deduction for net increases in eligible equity is calculated based on the 12-month Euribor rate plus a spread that has gone from 1.5 to 2 percentage points, and the tax benefit is calculated in the same way for all companies.
- Additionally, the deduction will rise from 30% to 50% in 2025, subject to the limits on the application of this tax benefit.



4. Measures that impact companies and workers

4.7 Extraordinary support regime for agricultural production costs

- The IRC extraordinary support scheme for costs incurred in agricultural production will continue to apply in 2025. This consists of a 40% increase for the costs and losses incurred or borne for the purchase of certain goods associated with agricultural production (e.g., fertilizers, meals, cereals and seeds for feeding livestock, poultry and other animals).

4.8 Extraordinary support regime for electricity and gas costs

- The extraordinary support regime for electricity and gas costs that applied from 2022 to 2024, which established a 20% increase in the costs and losses incurred or borne with electricity and natural gas consumption, was not included in the 2025 State Budget Proposal.

4.9. Extension of tax benefits

- Tax benefits related to the following have been extended until December 31, 2025:

Deductions relating to social impact bond partnerships

Tax incentives for forestry activities

Forest management entities and forest management units

Solar and electricity-powered or electric-only vessels

5. Housing

5.1 Stamp duty exemption on mortgage loans

- Extension of the stamp duty exemption on the use of credit in the context of operations to temporarily fix the installment and capitalization of the approved amounts in housing loans covered by the measure set out in Decree-Law 91/2023 of October 11, which establishes the measure to temporarily fix the installments of credit agreements for the purchase or construction of owner-occupied housing and boosts the extraordinary measures and support relating to housing loans.

5.2 Updating the Municipal Property Tax (“IMT”) brackets

- The IMT tax brackets for the purchase of residential buildings are to be raised by around 2.3%, following the increase of around 5% made in the 2024 State Budget Law.

5.3 Legislative authorization - VAT

- **Legislative authorization for the reduced VAT rate for construction or rehabilitation work on residential properties:** The government is authorized, for a period of 365 days, to amend item 2.18 of List I attached to the VAT Code to:
 - (i) establish that construction or rehabilitation works for affordable housing, controlled-cost housing, or affordable rental housing are defined according to criteria established by the government members responsible for finance and housing; and
 - (ii) exclude from its scope services relating to residential properties whose value exceeds the limit that is compatible with the pursuit of the government's social housing policies.

Beneficiaries of the stamp duty exemption?

Borrowers of mortgage loans for owner-occupied housing with a variable or mixed interest rate in a variable interest period, contracted for by March 15, 2023, and with a remaining term of more than five years, covered by Decree-Law 91/2023 of October 11, which establishes the measure to temporarily fix the installments of credit contracts for the purchase or construction of owner-occupied housing and boosts the extraordinary measures and support relating to housing loans.

6. Other substantial changes

6.1 VAT

- **VAT exemption:** The exemption for the transfer of fertilizers, soil correctors, and other products used for feeding livestock, poultry and other animals, when used in agricultural production activities, has been extended until December 31, 2025. These transactions confer the right to deduct the tax levied on goods or services purchased, imported, or used by the taxable person to carry out these activities.

6.2 ISV

- **Vehicle tax (“ISV”):** Purchase of used vehicles. The rules for taxing used vehicles with definitive Community license registrations issued by other European Union Member States have been reviewed, harmonizing the time of use considered for the purpose of applying the percentage reduction relating to cylinder capacity and environmental components. The requirement to pay a fee to request recalculation of the tax in cases where the owner disagrees with the provisional assessment issued by the Customs Authority, has been eliminated.

6.3 Other matters

- **PDF invoices:** Invoices will continue to be accepted in PDF format until December 31, 2025, and will be considered electronic invoices for all the purposes established in the tax legislation.
- **Accounting SAF-T (PT):** The obligation for taxpayers to submit the SAF-T has been postponed. This will now be applicable from 2026, to be submitted in 2027 or later.
- **Stock valuation:** Taxpayers are exempt from the stock valuation obligation for the tax period starting on or after January 1, 2024. Additionally, taxpayers that are not required to keep a permanent stock are also exempt from this obligation for the tax period starting on or after January 1, 2025.

Final note:

The government law proposal referred to in this document (Law Proposal 26/XVI/1) is still at the parliamentary appraisal stage and may be changed during the approval process.

This document has been prepared based on the initial version of the law in question, which entered Parliament on October 10, 2024.

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