
Personal Income Tax exemption on balance sheet bonuses paid in 2024

Portuguese Tax Authority's Letter no. 20271 clarifies the conditions for applying the Personal Income Tax ("PIT") exemption on employment income arising from the payment of balance sheet bonuses to employees in 2024.

Portugal – Legal Update

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Key aspects

- The exemption applies to balance sheet bonuses paid to employees in 2024 for profits made in 2023 or previous years;
- The exemption only applies if there is a salary increase of at least 5% for all employees;
- The comparison will be between the salaries on December 2024 and on December 2023;
- The PIT exemption limit for each employee is equivalent to one fixed monthly remuneration capped at five times the national minimum salary, i.e., €4,100.00;
- The procedure for correcting any tax withheld on balance sheet bonuses paid in 2024, prior to the issuance of the Letter, remains to be clarified.



Clarifying the conditions applicable to the PIT exemption on balance sheet bonus payments

The Portuguese Tax Authority (“PTA”) issued Letter no. 20271 (“Letter”), of August 27th, to clarify the conditions for applying the PIT exemption established under Law no. 82/2023, of December 29 – the State Budget Law (“SBL”) for 2024 – to sums paid as a share of a company’s profits in 2024, through balance sheet bonuses.

Under the SBL for 2024, the amounts allocated to employees as a share in the company’s profits, through a balance sheet bonus, and paid by entities whose fixed salaries were increased in 2024 by at least 5% for all employees, are exempt from PIT up to the amount of one month’s fixed remuneration and capped at five times the national minimum salary. The SBL additionally establishes that it is a progressive exemption.

The abovementioned Letter confirms the temporary nature of the regime and clarifies its various relevant concepts and procedures.

As the PIT exemption is a temporary tax benefit, the PTA emphasizes that it applies to balance sheet bonuses paid in 2024 for profits from the financial year of 2023 or undistributed profits from previous financial years, provided that said distribution occurs during the year of 2024 and it is included in a resolution at the general meeting of shareholders with the respective approval of accounts.

Additionally, the Letter clarifies the concept of “*all employees*” referred to in the SBL for 2024, which is a fundamental element for determining the salary increase and, consequently, applying the PIT exemption. It states that “*all employees*” means the entire set of the company’s employees. Therefore, the 5% salary increase must apply to all of them, being an average increase of 5% insufficient.

This requirement must be met by comparing the fixed remuneration paid to each of the company’s employees in December 2024 with the ones paid to these employees in December 2023.

Based on its view in a previously issued letter (Letter no. 20260/2023, of September 15th), the PTA states that the concept of fixed monthly remuneration is defined as all the remuneration earned by the employee that is not dependent on the individual performance of the team or the company, as well as other supplementary fixed remuneration (including, for example, meal allowances).

It is important to highlight that the PTA clarifies that the members of the board cannot benefit from this PIT exemption, as it applies only to employees with an employment contract.



In addition, the exemption limit is equal to one-month fixed remuneration of the employee in question and is capped at five times the national minimum salary for 2024 (€820), that is, €4,100.

Finally, the PTA provides indications regarding employee salary processing. As it is a progressive exemption, the amounts paid as balance sheet bonuses will be considered to determine the progressive rates applicable to the employees' remaining income and must, therefore, also be considered to determine the applicable withholding tax rate. The PTA also points out that a specific code has been created for reporting these exempt amounts in the Monthly Remuneration returns.

Notwithstanding the relevance of this Letter and considering that several balance sheet bonuses for 2023 have been paid, in most cases, in the first half of 2024, no clarification has yet been provided regarding the procedure that companies should adopt to correct any PIT amounts that have already been withheld if they understand that the requirements for this exemption will be met as of December 2024, allowing the amounts withheld in excess to be reimbursed to the employees .

For additional information, please contact Cuatrecasas.

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