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State Budget 2025 Main Tax Amendments



In this document, we summarize the main tax amendments contained in Law No. 45-A/2024, of December 31, which approved State Budget for year 2025 (LOE 2025).

I. PERSONAL INCOME TAX ("IRS")

A. Employment income – Meal Allowance

The legal limit established for the tax exemption of meal allowances paid through meal vouchers was increased from 60% to 70%. Thus, the meal allowance paid through meal vouchers will be tax exempt if it does not exceed €10.20 (currently €6).

B. Capital gains – Exemption on capital gains realized with onerous transfer of real estate intended for own and permanent residence

It was clarified that the exemption applicable to capital gains, in case of using the value of the realization in the acquisition of Pan-European Individual Savings Product, also depends on the reinvestment being carried out within six months from the realization date.

The deadline for reinvestment in Pan-European Individual Savings Product that started between June 29, 2024, and December 31, 2024, will be counted as from January 1, 2025.

C. Youth Income Tax ("IRS Jovem") - Exemption on income from categories A and B

The Youth Income Tax regime was amended by increasing the maximum age and the number of years to obtain this tax benefit. Thus, all taxpayers up to the age of 35, who are not considered dependents, may benefit from a partial IRS exemption during the first 10 years of earning income.

Completing a cycle of studies equal to or greater than level 4 of the National Qualifications Framework is no longer a condition to apply for this benefit.

The IRS exemption will be of:

- 100% in the 1st year of earnings;
- 75% from the 2nd to the 4th year of earnings;
- 50% from the 5th to the 7th year of earnings;
- 25% from the 8th to the 10th year of earnings.

In all years of exemption, the limit will be 55 times the value of the Social Support Index ("IAS") (IAS 2025 = 522,50 x 55 = 28.737,5 euros).

Taxpayers who wish to benefit from this regime (i.e., who are up to 35 years old, have not obtained income for more than 10 years and are not considered dependents) fall under the exemption percentage that corresponds to the year following the number of years of obtaining income from categories A or B that have already elapsed, excluding the years in which they have been deemed dependents.

Taxpayers who wish to benefit from this regime must inform their employers of their option. The withholding tax rate to be applied to the taxpayer's income will be that resulting from the consideration of all income, including exempt income, depending on the year to which the exemption refers, but only imposed on taxable income.

Exemption does not apply in the years in which there is no category A and B income, and it is reapplied for the remaining years of income, until a total of 10 years of exemption is elapsed, without exceeding the maximum age of 35 years.

Taxpayers are excluded from this benefit if:

- benefit or have benefited from the non-habitual resident regime;
- benefit or have benefited from the tax incentive for scientific research and innovation;

- have opted for the tax regime applicable to former residents; and
- do not have their tax situation regularized.

D. Employment and pension income - Deductions

The amount of the specific deduction from gross income in categories A (employment) and H (pensions) was amended, from the fixed amount of 4,104 euros to an amount corresponding to 8.54 times the value of IAS. Thus, to gross income of categories A and H will be deducted up to 8.54 times of IAS value, being that deduction in 2025, of 4,462.15 euros (IAS 2025 = 522.50x8.54).

E. IRS tax brackets

All taxable income brackets have been updated in 4.62%, but the tax rates have not been amended.

F. Minimum of existence

The reference value for the minimum of existence was amended to 12.180 euros or an amount corresponding to 1.5 x 14 x IAS, if higher.

G. Withholding taxes - non residents

The exclusion of withholding tax on overtime work income earned by non-residents applies to the first 100 hours of work or services rendered, up to the value of the guaranteed minimum monthly wage (“RMMG”), and provided that all legal requirements are met.

H. Autonomous tax rate - Acquisition of vehicles and representation costs

The reference value for the purpose of applying autonomous tax rates to deductible expenses for the acquisition of passenger vehicles or light commercial vehicles by taxpayers who keep or should keep organized accounts for the exercise of their commercial or professional activities has been updated to 30.000 euros.

The autonomous tax rate is 10% if the acquisition cost is less than 30.000 euros, and 20% if the acquisition cost is equal to or greater than 30.000 euros. These rates do not apply to vehicles powered exclusively by electricity.

Expenses related to shows offered in the country or abroad to customers, suppliers or any other person or entity are no longer deemed representation costs and thus are not subject to an autonomous tax rate of 10%.

I. Withholding tax on category A income – Overtime work

The withholding tax rate applicable to overtime work will be 50% of the tax rate applicable to the monthly remuneration for dependent work. Previously, this reduction applied only as from 101st hour of overtime.

J. Withholding tax on other categories of income

Reduction from 25% to 23% of the withholding tax rates applicable to income derived from professional activities listed in Annex I of Ordinance No. 1011/2001, of August 21, namely: architects, engineers and similar technicians; visual artists, actors and musicians; bullfighting artists; nurses, midwives and other paramedical technicians; jurists and solicitors; doctors and dentists; teachers and similar technicians; statutory auditors and notaries; psychologists and sociologists; Chemical workers; Priests; Veterinary; other liberal, technical and similar professions.

K. Payments on account

All payments on account have been reduced to 65% of the amount calculated according to the formula currently in force.

L. Productivity bonuses, performance, profit sharing and balance sheet bonuses

In 2025, the amounts paid or made available by the employer to employees or board members, on a voluntary and regular basis, as productivity bonuses, performance bonuses, profit-sharing bonuses and balance sheet bonuses, up to a limit of 6% of the employee's annual base salary, will be exempt from IRS.

This exemption depends on a salary increase made by employer in 2025 that is eligible for the tax incentive for wage increases, foreseen in article 19-B of the Tax Benefits Code ("EBF").

II. CORPORATE INCOME TAX ("IRC")

A. Social benefits - Employees' health or sickness insurance

Expenses incurred with employees' health or sickness insurance will be deductible in 120%.

B. Corporate Income Tax Rate

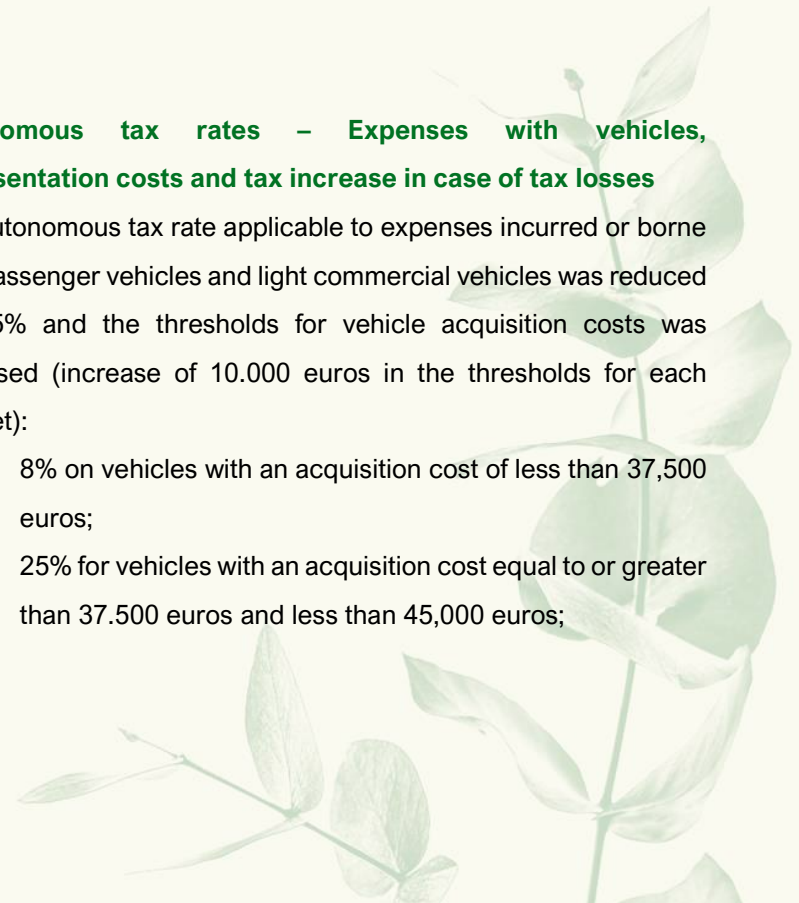
The highest nominal rate of corporate income tax was reduced by 1%, from 21% to 20%.

In the case of taxpayers which directly and mainly carry out economic activities of an agricultural, commercial or industrial nature, classified as small or medium-sized companies or small mid-cap companies, corporate income tax rate applicable to the first 50.000 euros of taxable income was reduced to 16%, and the rate of 20% is applicable to the surplus.

These changes apply to tax periods beginning in or after 1 January 2025.

C. Autonomous tax rates – Expenses with vehicles, representation costs and tax increase in case of tax losses

- The autonomous tax rate applicable to expenses incurred or borne with passenger vehicles and light commercial vehicles was reduced by 0.5% and the thresholds for vehicle acquisition costs was increased (increase of 10.000 euros in the thresholds for each bracket):
 - 8% on vehicles with an acquisition cost of less than 37,500 euros;
 - 25% for vehicles with an acquisition cost equal to or greater than 37.500 euros and less than 45,000 euros;



- 32% for vehicles with an acquisition cost equal to or greater than 45.000 euros.

Expenses related to shows offered in the country or abroad to customers, suppliers or any other person or entity are no longer deemed representation costs and thus are not subject to an autonomous tax rate of 10%.

As in former years, it was also approved for 2025 that the autonomous tax rates will not be increased by 10 percentage points in the event of tax losses, if:

- the 2025 tax period corresponds to the period of commencement of the activity or to one of the two following periods.
- the taxpayer has obtained taxable profit in one of the three previous tax periods (2022, 2023 and 2024) and complied in due time with reporting obligations for IRC ("Model 22"), and Simplified Business Information ("IES") relating to the two previous tax periods (2023 and 2024).

D. Transitional provisions for tax compliance obligations

- The obligation to value inventories, in compliance with the communication provided for in article 3-A of Decree-Law no. 198/2012, of August 24 is waived in relation to:
 - a) All taxpayers, in respect of the tax period beginning on or after 1 January 2024;
 - b) Taxpayers who are not required to have a permanent inventory, in respect of the tax period beginning on or after 1 January 2025;
- The submission of the SAF-T (PT) file for accounting is applicable for periods starting as from 2026, to be submitted in 2027 and subsequent periods;
- Until 31 December 2025, invoices in PDF format will be accepted and will be considered as electronic invoices for all purposes provided for in tax legislation.

III. TAX BENEFITS CODE ("EBF")

A. Tax incentives for wage increases

The eligibility conditions for the wage increase tax benefit have been substantially amended.

The tax deduction of expenses corresponding to wage increases related to employees with an employment contract for an indefinite period will be

increased from 150% to 200%, subject to the following additional cumulative requirements:

- (i) minimum increase of 4.7% in the average annual base salary in the company; and
- (ii) minimum increase of 4.7% in the annual base salary of employees who earn an amount less than or equal to the company's average annual base salary of the at the end of the previous year.

For the purpose of tax deduction, only the expenses related to employees covered by a collective labor convention signed or updated less than three years ago will be taken into account.

The maximum annual amount of expenses, per employee, was increased from 4 to 5 times the RMMG, being excluded the expenses resulting from the update of this value (the RMMG for 2025 is 870 euros).

B. Applicable regime for companies authorised to operate in Madeira Free Zone

The tax regime applicable in the Madeira Free Zone has been extended for two years.

Thus, the corporate income tax rate of 5% will continue to apply until 31 December 2028 to companies authorized to operate in the Madeira Free Zone from 1 January 2015 until 31 December 2026, subject to fulfilment of remainder conditions of the regime.

C. Incentives to companies' recapitalization

The benefit is no longer subject to the condition that the capital contribution is made to a company in a situation of loss of half of its capital (according to article 35 of the Commercial Companies Code).

Thus, regardless of the company's situation, a taxpayer that makes a cash contribution to a company in which he has a shareholding may deduct up to 20% of such contribution from the gross amount of profits distributed by the company or, in the event of disposal of shareholding, from the positive difference between the capital gains and losses realized.

Entities subject to the supervision of the Bank of Portugal, or the Supervisory Authority for Insurance and Pension Funds, branches in Portugal of credit institutions, other financial institutions or insurance companies, will no longer benefit from this regime.

D. Incentives to companies' capitalization

The deductible amounts, relating to net increases in eligible equity, are now calculated on the basis of 12-month Euribor rate, plus a spread of 2% (increase of 0.5%). In 2025, deduction will be increased by 50%, subject to the following limits:

- 4.000,000 euros; or
- 30% of earnings before depreciation, amortisation, net financial expenses and taxes.

E. Incentives for the re-parcelling of rural properties land

In 2025, all acts and contracts necessary to carry out re-parcelling operations of contiguous or adjacent rural properties, by the same owner, regardless of their economic use, as well as the registration of all rights and liens on the new rural properties resulting therefrom, will be exempt from legal fees.

Such operations will also be exempt from Real Estate Transfer Tax (“IMT”) and stamp duty. Exemptions from IMT and stamp duty must be requested by taxpayers to the tax authorities, prior to the transfer act or contract.

To benefit from these exemptions, the request must be filed with documents demonstrating that:

- The applicant is the owner of the rural property to be re-parcelled; and
- The rural property to be re-parcelled is contiguous or adjacent (according to the document issued by the territorially competent municipality).

IV. VALUE ADDED TAX ("VAT")

A. Right to deduct VAT

It is possible to deduct VAT on the acquisition, manufacture, import, rental, use, transformation and repair of bicycles, whether motorized or not. It is foreseen that this amendment has an interpretative nature.

V. STAMP DUTY

A. Transmission of data between the Institute of Registries and Notaries, the Treasury and Public Debt Management Agency and the Portuguese Tax Authorities

With this addition, the transmission of data and information between the Institute of Registries and Notaries, I.P, the Treasury and Public Debt Management Agency – IGCP, E.P.E., and the Portuguese Tax Authorities regarding public debt securities and certificates registered in the name of a deceased person is ensured.

B. Stamp duty exemption – Loans to buy or build a permanent home

1) The provisions of article 242 of Law no. 24-D/2022, dated 30 December 2023, regarding the exemption from stamp duty of the following credit restructuring operations under the legal regime of housing credit, were extended until 31 December 2025:

- Modification of the term of the credit that implies payment of additional stamp duty due to change of tax rate applicable;
- Extension of the term;
- Signing of a new credit agreement to refinance the debt.

2) Guarantees provided for in a new credit agreement for debt refinancing continue to be exempt from stamp duty in case of change of credit institution or subrogation on the rights and guarantees of the mortgage lender, provided that, in both cases, the stamp duty is borne by the respective borrowers.

3) The provisions of article 251 of Law no. 82/2023, dated of 29 December 2024, regarding stamp duty exemption on the operations of temporary fixation of installments and capitalization of deferred amounts in the amount of the loan, within the scope of credit granted for the acquisition or construction of permanent housing, were also extended until 31 December 2025.

VI. REAL ESTATE TRANSFER TAX ("IMT")

A. IMT tax brackets

The IMT tax brackets for the acquisition of an urban property or an autonomous fraction of an urban property intended exclusively for residential purposes were updated by about 2.3% (whether in the case of own and permanent housing as a secondary residence).

VII. MUNICIPAL PROPERTY TAX ("IMI")

A. IMI exemption

Until February 2025, the Portuguese Tax Authority will make available the list of municipalities where the extension of the IMI exemption is in force for urban property intended for own and permanent residence of the taxpayer or his household, which tax value does not exceed 125.000 euros.

VIII. OTHER PROVISIONS

The following contributions will remain in force for 2025:

- Contribution to the banking sector.
- Additional solidarity for the banking sector.

- Contribution to the pharmaceutical industry.
- Extraordinary contribution for suppliers of medical devices to the National Health Service.
- Extraordinary contribution to the energy sector.
- Additional Circulation Tax (“IUC”).

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