

TAX REFORMS AIM TO MAKE PORTUGAL MORE COMPETITIVE - CAIADO GUERREIRO & ASSOCIADOS

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At the beginning of 2015, new rules related to the taxation of individuals came into effect, as well as a new “green tax reform”. Meanwhile, in parallel, policies related to corporate taxation are being continuously improved with a view to ensuring an increase in foreign investment.

These reforms are backed by political consensus between the government and the opposition Socialist Party, as well as having the support of international institutions, under the terms of Portugal’s financial assistance programme. The intention of the reforms is to increase the competitiveness of the Portuguese tax system – in addition to attracting more foreign investment, the aim is to enhance Portugal's position in the European market.

CIT Reform and the new Investment Tax Code

The general rate of corporate tax has been reduced from 23 per cent to 21 per cent, with effect from

January 2015. Meanwhile, the Portuguese government also intends to progressively reduce the nominal tax rate to 17 per cent. Furthermore, in October 2014, the new Investment Tax Code was approved. This code will strengthen investment tax benefits in an effort to adapt them to the new European Union context.

Under the tax regime for investment support, taxpayers can benefit from a CIT credit of 25 per cent for investments up to €5 million, and a credit of 10 per cent for investments above €5 million. Start-up companies will be able to deduct their eligible investment credit – up to the full amount of the CIT – during their first three years of activity.

By implementing this system of tax incentives, Portugal has a more competitive stance from an international perspective, allowing companies to benefit from effective CIT rates of between eight per cent and 10 per cent, depending on the circumstances of their investment.

The new Investment Tax Code aims to unify the procedures for applying tax incentives to investments as well as gather together in one single code the array of tax incentives that already exist.

PIT Reform

With regard to personal income tax reform, significant changes have been implemented in relation to family income, birth rate, separate taxation, workforce mobility and the deduction of actual expenses. There have also been changes to tax residence criteria. According to the law, residence in Portugal is classed as spending at least 183 days in the country – counted in any twelve month period commencing or ending in the calendar year concerned (part of a day included). In addition, residence in Portugal is also classed as – even when staying less than 183 days – having at any time in that period, a house that is maintained and used as a permanent residence. Another important change is a new quotient that takes into account the number of members in a family when establishing their tax status.

The reform establishes that it may be possible for a separate tax for married taxpayers. With this innovation, the negative discrimination of married individuals, who are not allowed to be taxed separately, comes to an end. Additionally, the law also foresees that real estate leasing can be considered as a professional activity for tax purposes in relation to business profits.

Green Tax Reform

Several innovations were introduced by this reform, which focused on the protection of the environment. Regarding the acquisition cost of "environmentally friendly" vehicles, the reform introduces an increase in the maximum cost accepted for tax purposes for vehicles acquired since January 2015. In the meantime, a tax benefit is introduced for companies and individuals that incur expenses related to car-sharing and bike-sharing programs. There is also a levy of €0.08 on lightweight plastic bags purchased by retail stores. However, tax incentives are provided for forestry investments.

Conclusion

The tax reforms have made the Portuguese tax system much more competitive, which combined with other innovations aiming to attract foreign investment (such as the 'Golden Visa' and the non-habitual resident programmes) makes Portugal an attractive investment platform for any company or high profile individual, especially those linked with Europe and Portuguese-speaking countries.

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