

## PUBLICATION OF THE VEHICLE TAX REFORM LAWS

**1.** The automobile taxation regime has been reformed in the new Automobile Tax Code (ISV) and Single Circulation Tax Code (IUC) enacted by Law 22-A/2007, which was published on 29 June 2007. The existing Automobile Tax, Circulation Tax, Road Haulage Tax and Municipal Vehicle Tax will be abolished when these new Codes come into force on 1 July 2007.

The new ISV takes the place of the Automobile Tax (IA) and the new IUC replaces the Circulation Tax (ICi), Road Haulage Tax (IÇA) and the Municipal Vehicle Tax (IMV).

**2.** The main novelties of the ISV in relation to the now defunct IA which applied until 30 June 2007 are as follows:

i) Tax base

The tax will now also be levied on motorcaravans, pick-up trucks with a gross weight of over 3,500 kg and four-wheel drive, mopeds, motor tricycles and quadricycles.

ii) Tax rates

The ISV rates for light passenger vehicles are set out in Table A of the legislation in question, and are calculated on the capacity component and the carbon dioxide (CO<sub>2</sub>) emission component, and it is worth noting that the values attributed to this latter component depends on the type of fuel used: petrol or diesel. The rates for light commercial vehicles subject to ISV are set out in Table B, which relates solely to the cylinder

capacity of such vehicles. This table will remain in force until 31 December 2008, at which time information will be available as to the CO<sub>2</sub> emissions of these vehicles and thereafter all vehicles will be taxed in accordance with Table A;

iii) Tax base components

The tax base which has been calculated on 90% cylinder capacity and 10% CO<sub>2</sub> emissions since 1 July 2006 has now been changed to 70% cylinder capacity and 30% CO<sub>2</sub> emissions. These percentages result from applying the tables referred to above.

iv) Aggravated tax on certain light commercial vehicles

The tax burden on light commercial vehicles derived from light passenger vehicles has been increased from 40% to 50%, but the taxation levels at the circulation stage remain the same;

v) The shift of part of the tax burden from the registration stage to the circulation stage

According to Government forecasts, the ISV rates will lead to a decrease in tax revenue in the region of 10% in comparison to what would have been collected had no reform taken place. The decrease in ISV revenue will be offset by the major revenue to be gained from IUC, but the estimates predict that this balance will only be achieved after a period of ten years;

vi) Chargeable event

In this respect, there has been major approximation to the governing concepts in the area of community-harmonised excise duties, that is to say, the duty on

petroleum and energy products (ISP) tobacco duty (IST) and the duty on alcohol and alcoholic beverages (IABA). Thus, as a rule, the chargeable event is the production (or import) of the automobiles in (or into) Portugal or another Member State of the European Union, provided that these are intended to be registered nationally;

vii) Exemptions

Exemptions have been reorganised systematically and the burdens of the “non-disposition” of the vehicle during the first year of registration and “the payment of the residual tax” have been generalised, whenever it is intended to dispose of a vehicle between the second and fifth year of registration. In relation to the grant of exemptions owing to a transfer of residence to Portugal, the conditions required for emigrants from outside the EU have been standardised with those that apply to emigrants who transfer their residence from within the EU to Portugal, with the former thus benefiting from a more favourable system;

**3.**The main alterations that the IUC has brought into being are the following:

- i) Vehicles registered on or before 30 June 2007 will be subject to the same IMV rates in force on that date and will remain so during their useful lives;
- ii) Vehicles registered from 1 July 2007 will be subject to the rates table of the IUC which comprises a cylinder component and a CO2 component.

- iii) Diesel-powered vehicles registered from 1 July 2007 will now be subject to the same IUC rates as petrol-powered vehicles;
- iv) The new tax will be levied on the “ownership” of the vehicle rather than on its “circulation”, as a result, even if a vehicle is not in circulation (e.g. because its owner is abroad) the tax will still be owed. The IUC will be the responsibility of the owner of the vehicle and payable on the anniversary of the registration.
- v) As of 1 January 2008, IUC will become payable for all vehicles (even those registered on or before 30 June 2007) on the anniversary of the registration date, based on an assessment made in advance by the authorities and communicated to the owner of the vehicle, with the current “stamp” ceasing to be used as proof of payment;
- vi) If the IUC is not paid within the voluntary payment time limit, the tax authorities may request the police authorities to immobilise the vehicle in addition to initiating enforced recovery proceedings;

**4.**Finally, we continue to await the clarification by the authorities of various procedures, among which the following are worthy of note: the registration by Car Dealerships (at the Motor Vehicle Registry) of used vehicles received as part exchange for a new vehicle and possible exemption from IUC during the time in which such vehicles remain unsold, sales between private individuals which are not immediately followed by the appropriate alterations at the Motor Vehicle Registry, or settling issues such as those of the vehicles which are still registered today in the name of the person who sold them years ago...

Lisbon, 4 July 2007

## “Portuguese Law Firm of the Year”

IFLR Awards 2006 - Who’s Who Legal Awards 2006  
 “Best Portuguese Tax Firm” - Tax Review Awards  
 Award Mind Leaders Awards™ – Human Resources Suppliers - 2007

The present Tax Information was by the PLMJ Tax Department with the purpose of being distributed to Clients and Colleagues. The information contained herein, being provided for in a general and abstract manner, should not be considered as a basis to any decision without the due qualified professional assistance directed to the concrete case. The contents of this information may not be reproduced, be it fully or partially, without the express authorization of the editor. Should you require further clarification on matter the PLMJ Tax Department shall gladly provide you with all necessary assistance.

Contact: Dr. Rogério M. Fernandes Ferreira, Equity Partner and Co-Head of the PLMJ Tax Department. - e.mail: rff@plmj.pt, tel: (351) 213 197 358; fax: (351) 213 197 514.

**Lisboa**

Avenida da Liberdade n.º 224  
 1250-148 Lisboa

Tel: (351) 21 319 73 00  
 Fax: (351) 21 319 74 00  
 email geral: plmjlawplmj.com

**Porto**

Avenida da Boavista n.º 2121, 4.º - 407  
 4100-137 Porto

Tel: (351) 22 607 47 00  
 Fax: (351) 22 607 47 50

**Faro**

Rua Pinheiro Chagas, 16, 2.º Dto. (à Pç. da Liberdade)  
 8000 - 406 Faro

Tel: (351) 289 80 41 37  
 Fax: (351) 289 80 35 88

**Coimbra**

Rua João Machado nº 100  
 Edifício Coimbra, 5º Andar, Salas 505, 506 e 507  
 3000-226 Coimbra

Tel: (351) 239 85 19 50  
 Fax: (351) 239 82 53 66

Offices in Angola, Brazil and Macao (in joint venture with local Firms)