



STATE BUDGET 2012: TAX PROPOSALS

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I. INTRODUCTION

PRESENTATION The 2012 State Budget Bill was presented to Parliament on 17 October.

APPROVAL The general discussion and vote on the Bill are scheduled for 3 and 4 November while the special discussion and vote are scheduled for 22, 23, 24 and 25 November and the final overall discussion and vote for 25 November.

ENTRY INTO FORCE Once the Bill is approved, the 2011 State Budget Law, including all its amendments, updates and authorisations on tax matters will come into force and take effect on 1 January 2012.

II. PERSONAL INCOME TAX (*IMPOSTO SOBRE O RENDIMENTO DE INDIVIDUALS / IRS*)

MEAL ALLOWANCE The Budget Bill proposes a reduction in the part of the meal allowance which is not subject to personal income tax (better known in Portugal and referred to in this document as 'IRS'). This subsidy will become part of the income from employment to the extent it exceeds the legal limit established by 30% (currently 50%), or by 60% (previously 70%) whenever the allowance is given in the form of vouchers.

HOUSING PROVIDED BY THE EMPLOYER A reduction in the limit applicable to taxable income in the use of housing provided by the employer without payment of rent is proposed. The limit must correspond to

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	<p>the amount of the controlled rent, determined in accordance with legal criteria, to the extent it does not exceed one third (rather than one sixth) of the total income earned by the beneficiary.</p>
INTEREST PAID BY THE EMPLOYER	<p>It is proposed that the taxable income relating to interest paid by the employer in the case of loans provided to the employee will be determined in accordance with distinct criteria, and also, depending on whether the loans are provided by the employer or by third parties. In the latter case the taxable income must correspond to the part of the interest paid by the employer.</p>
COMPENSATION FOR TERMINATION OF CONTRACT OR POSITION	<p>It is proposed that representatives of permanent establishments of non-resident entities will be tax on the total amount compensation received for termination of employment. This puts them in the same position as public sector managers and company directors and managers. A reduction in the limit after which compensation for termination of the employment contract or equivalent is taxed is also proposed. This will correspond to the average value (rather than one and the half times the value) of regular remuneration of the nature of salary subject to tax earned in the last twelve months, multiplied by the number of years or fraction of year of service, or of carrying out duties in the company paying the compensation.</p>
PROFESSIONS WITH A SHORT LIFESPAN	<p>The introduction of a limit of five times the Social Support Index (SSI) – (€2096.10) is proposed for the deduction of amounts spent by taxable persons who work in professions with a short lifespan (such as professional sportsmen and women) in taking out insurance for healthcare and personal accidents and life insurance that exclusively guarantees risks of death, invalidity or age-based retirement.</p>
EXCLUSION OF TAXATION OF INCOME FROM AGRICULTURE, FORESTRY AND FISHERIES	<p>The bill proposes a reduction in the limit up to which income from agriculture, forestry and fishery activities are excluded from taxation under category B (professional and business income), to four and a half times the annual value of the SSI (€26 410.86) per household. This substitutes the current limit of five times the said annual SSI value per household.</p>
IMPUTATION OF INCOME OF NON-RESIDENT COMPANIES BENEFITING FROM A PRIVILEGED TAX REGIME	<p>It is proposed that the rules on imputation of income of non-resident companies subject to a privileged tax regime should be applied to resident taxable persons who hold, directly or indirectly, through a legal representative, trustee or intermediary, 25% or 10%, according to the specific case, not only in stakes in the capital but also in voting rights or other rights over the income or the assets of those companies.</p>
INCOME IN THE ASSIGNMENT OR ANNULMENT OF SWAPS OR FOREIGN EXCHANGE OPERATIONS	<p>For the calculation of income resulting from the assignment or annulment of swaps or foreign exchange forward operations with payments and receipts of adjustment values, it is proposed that neither the payment of compensation nor the cost imputed to the acquisition of a contractual position of a pre-existing swap should be taken into consideration when, in both cases, they exceed the adjustment or terminal payments provided for in the original contract, or the market prices applicable to operations with identical characteristics.</p>
SPECIFIC DEDUCTION IN CATEGORY H	<p>Provision is made for the specific deduction of gross pension income to be equal to the specific deduction laid down for income from employment, which is 72% of twelve times the value of the SSI. For this purpose, it must be considered that the value of the SSI should correspond to the value of the minimum monthly pay applicable in 2010, which is €475.00.</p>
PEOPLE WITH DISABILITIES	<p>On a temporary basis, in 2012 only 90% of the gross income from categories A (employment income), B (business and professional income) and H (pensions) earned by taxable persons with disabilities should be considered for the purposes of IRS (personal income tax). The part of the income excluded from taxation may not exceed €2500.00 per category of income.</p>

CARRY FORWARD OF LOSSES IN CATEGORIES B, F AND G	A new period is proposed for the carry forward of losses in categories B (business and professional income), F (real property income) and G (increases in wealth including capital gains). The period will be five years in place of the current four years and this alteration will apply to tax losses made in taxation periods that begin after the 2012 State Budget Law comes into force. For category B, the deduction of losses in each of the periods cannot exceed 75% of the taxable profits.
DECLARATION BY EXECUTOR OR ADMINISTRATOR	In cases where a taxable person dies it is proposed that the administrator (executor) of the deceased's estate must present an income declaration in the name of the deceased for the income earned between 1 January of the year of death and the date of death.
TAX BANDS AND GENERAL RATES	The budget bill retains the table of taxable income bands and the corresponding general rates that are currently in force.
ADDITIONAL SOLIDARITY RATE	However, the budget bill also provides for the introduction of an additional (solidarity) rate of 2.5% to be charged on taxable income above €153 300.00. Its application is limited to income earned during the tax years 2012 and 2013.
SUBSISTENCE MINIMUM	It is proposed that the subsistence minimum limit should be extended to cover not only income from Category A (employment) but also income from Category H (pensions).
SPECIAL RATES	It is proposed that the taxation of income from real property (Category E) not subject to withholding at source, earned in Portugal by a non-resident and not imputable to a permanent establishment within the country, will be subject to a rate of 16.5% rather than 15% and that the positive balance between capital gains and losses from real estate will be subject to a rate of 21.5%, in place of the current rate of 20%.
ANTI-ABUSE MEASURE	It is proposed that income from capital and securities paid - by non-resident entities, without permanent establishment in Portugal, which are domiciled in a country, territory or region subject to a clearly more favourable tax system - to taxable persons resident in Portugal, through the intermediary of entities instructed for this purpose, or which act on behalf of the debtors or those entitled to the income in question, will be subject to a withholding of tax at source, or in final terms, to a rate of 30%. The payment of such income to entities domiciled there will also be subject to a definitive withholding tax at the same rate.
WITHHOLDING TAXES IN CATEGORIES A, B, E AND F	The introduction of a withholding tax rate of 20% is proposed for income in categories A and B (in this case, in the context of carrying out activities with a high added value of a scientific, artistic or technical nature) earned by persons who are not habitually resident in Portugal. The Budget Bill also proposes the alteration of the withholding tax rates for income in Categories A (employment income), B (business and professional income), E (income from capital) and F (income from real property) provided for in Decree-Law no. 42/91 of 22 June (withholding tax system), in accordance with the IRS Code.
REBATE OF EXCESS WITHHOLDING TAX	A limit of one year is proposed for the payment of the rebate for excess withholding tax payments. This time limit runs from the date of presentation of the request for the rebate and the documents proving the requirements for the rebate to be made in respect of income covered by international conventions. The period is suspended whenever the procedure stops through the fault of the applicant, and compensatory interest is due in the event of default.
HEALTHCARE, EDUCATION AND TRAINING EXPENSES, FAMILY MAINTENANCE PAYMENTS AND EXPENSES FOR HOMES AND REAL PROPERTY	There are proposals to eliminate the deductions in the two highest bands and to extend the limitation on the tax allowances for costs of healthcare, education and

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training, family maintenance payments and cost associated with homes and real property, in the following terms:

Taxable income bands	2011	2012
Up to €4898	No Limit	No Limit
From more than €4898 up to €7410	No Limit	No Limit
From more than €7410 up to €18 375	No Limit	€1250
From more than €18 375 up to €42 259	No Limit	€1200
From more than €42 259 up to €61 244	No Limit	€1150
From more than €61 244 up to €66 045	No Limit	€1100
From more than €66 045 up to €153.300	1.666% of taxable income with a limit of €1100	€0
Above €153 300	€1100	€0

INCREASED ALLOWANCES FOR DEPENDENTS

However, provision is made for an increase in the limits set for income bands 3, 4, 5 and 6, in 10% for each dependant or child who is not a taxable person for the purposes of personal income tax.

DIVORCE, LEGAL SEPARATION AND DECLARATION OF NULLITY OR ANNULMENT OF MARRIAGE

In cases where, through divorce, legal separation of persons and property, declaration of nullity or annulment of the marriage, the parental responsibilities in relation to the children are exercised jointly by both parents, it is proposed that tax allowances in general will be split 50/50 in respect of each dependant.

HEALTHCARE EXPENSES

Provision is made for healthcare expenses to be deductible up to only 10% (rather than the current 30%), and with a limit of twice the SSI (€838.44). For households with three or more dependants there is a proposal to increase the limit to 30% of the value of the SSI (€125.77) for each dependant when there are healthcare expenses for all of them.

FAMILY MAINTENANCE PAYMENTS

Provision is made for tax allowances for the amounts of costs of family maintenance payments that the taxable person is under an obligation to pay under a court order or an agreement approved under the applicable legislation. This allowance will be subject to a monthly limit of the SSI for each beneficiary (€419.22). This replaces the existing monthly limit of 2.5 times the SSI (€1048.05).

REAL ESTATE EXPENSES

A reduction is proposed to the allowance for real estate expenses which will only be deductible up to a limit of 15%. It is also proposed that, in respect of contracts made before 31 December 2011, capital repayments under mortgage agreements for the purchase of a principal and permanent dwelling, and now also payments under financial leasing contracts, as well as rental contracts, will no longer be deductible. The limit of €591.00 remains in place. The elimination of the tax allowance for rent paid under contracts made with entities domiciled in countries with a privileged tax regime is also proposed. This includes situations in which such rental payments correspond to more than 1/15 of the official valuation for tax purposes (valor patrimonial) of the rented property. The increase in the limits provided for in accordance with the income band will also extend to rental contracts and financial leasing contracts.

TRANSITIONAL ARRANGEMENTS

It is intended that deductions for real estate expenses will be eliminated in stages and the following transitional arrangements have been established:

Real Estate Expenses	Consideration, for the purposes of IRS, of the limits on deduction of real estate expenses (€591)					
	2013	2014	2015	2016	2017	2018
Interest on debts	75% (€ 443,25)	50% (€ 295,50)	25% (€ 147,75)	-	-	-
Payments under contracts with housing cooperatives under the system for group purchases	75% (€ 443,25)	50% (€ 295,50)	25% (€ 147,75)	-	-	-
Rents due under financial leasing contracts	75% (€ 443,25)	50% (€ 295,50)	25% (€ 147,75)	-	-	-
Rents due under rental contracts	85% (€ 502,35)	70% (€ 413,70)	55% (€ 325,05)	40% (€ 236,4)	25% (€ 147,75)	-

DEADLINES FOR ASSESSMENT AND PAYMENT

Provision is made for the standardisation of the deadline for assessment of IRS which will end on 31 July. It is also intended that payment of the IRS due must be made by 31 August regardless of the deadline for filing the income declaration.

ONE-OFF TRANSACTIONS (ACTOS ISOLADOS)

The budget bill proposes the elimination of the exemption from issuing a receipt for work or services (*recibo verde*) and an invoice or equivalent document for one-off transactions (*actos isolados*).

DECLARATION OBLIGATIONS FOR INCOME PAID TO NON-RESIDENTS

The budget bill proposes the alteration of the deadline for debtor entities to file the declaration in respect of income paid or made available to taxable persons who are not resident in Portugal (tax form *Modelo 30*). This deadline will be the end of the second month following the payment or making available of the said income.

COMMUNICATION OF REAL ESTATE EXPENSES

The budget bill proposes the extension to financial leasing companies of the communication obligation in respect of interest expenses on debts contracted to acquire, build or renovate real estate for a principal and permanent dwelling.

COMMUNICATION OF PAYMENT OF SUBSIDIES

Provision is made for entities that pay non-reimbursable subsidies or grants in the context of Category B (business and professional income) activities to be required to file a declaration on the official form communicating the income attributed in the previous year by the end of the February of each year.

TAX REPRESENTATION OF NON-RESIDENTS

In compliance with the judgment of the Court of Justice of the European Union of 5 May 2011 (case C-267/09), the Budget Bill proposes the removal of the requirement to appoint a tax representative. This will become optional for non-residents or residents who move to Member States of the European Union or to countries in the European Economic Area (in the latter case, as long as they bound by rules on administrative cooperation in the area of tax equivalent to those established in the European Union).

CROSS-REFERENCES

The budget bill proposes the updating of the cross-references in the IRC (personal income tax) Code, IMI (municipal property tax) Code and the IMT (municipal tax on transfers of property for value) Code. NOTE: IMI is the annual tax paid by owners of real property and IMT is the tax paid when property is sold.

VAT CREDIT

The creation of an IRS deduction corresponding to a value of up to 5% of the VAT borne and actually paid in the acquisition of goods or services, subject to an upper limit, is also proposed.

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III. SOCIAL SECURITY

FREEZING OF THE SOCIAL SUPPORT INDEX

It is proposed that the current value of the SSI will be frozen to remain at €419.22.

MEMBERS OF COMPANY BOARDS AND COMMITTEES

The budget bill contains a proposal to make it clear that the members of the internal supervision bodies set up under the company's articles of association, as well as the members of other boards and committees set up in the same way, are subject to the contribution rules for members of corporate bodies when, they are mandatorily covered by the social protection system, and they do not opt for a different system of social protection for which registration is compulsory.

WORKERS IN THE FISHING INDUSTRY

The budget bill proposes the alteration, with effect from 1 January 2012, of the framework for local and coastal fishing workers, gatherers of marine species and on-shore fishermen. These workers will be considered to be expressly covered by the general rules in the Tax Code, with the special provisions for local and coastal fishing workers, the owners of boats who are part of the crew and exercise professional activity on these boats, and also gatherers of marine species and fishermen working on shore. The rate of contribution for social security will be 29% (21% paid by the employer and 8% by the employee).

RESTARTING ACTIVITY FOR SELF-EMPLOYED WORKERS

The budget bill proposes that when self-employed workers officially restart an activity, the legal relationship of subscription to social security will be brought forward the first day of the month in which the activity is restarted. In this case, it is also proposed that the basis of assessment will be determined by reference to the tax band that was used in the previous October if the termination of activity occurs during the twelve months for which the fixing of the tax band takes effect. Alternatively, it will be set at the first tax band if there has been no activity in the previous twelve months.

COMMUNICATION OF DATA

The budget bill makes a proposal for the Social Security authorities to send the values of all the social security contributions paid, by beneficiary, for the previous year, to the Directorate-General of Contributions and Taxes (DGCI). This data is to be transferred electronically in a declaration in the official form, by the end of February of each year.

IV. CORPORATE INCOME TAX (*IMPOSTO SOBRE O RENDIMENTO DAS PESSOAS COLECTIVAS - IRC*)

TAXATION PERIOD

Provision is made for it to be possible for companies to adopt an annual tax period different to the calendar year and that doing so will no longer be conditional on maintaining that period in the five tax periods immediately following. This option is available whenever the taxable company joins a group of companies that is obliged to prepare consolidated financial reports and in which the parent company adopts a taxation period different to the one adopted by the taxable company.

ENTITIES ATTACHED TO IPSSS

Provision is made for the entities attached to IPSSs (Private Social Solidarity Institutions) to cease to benefit from the IRC exemption.

NON-CONSUMABLE BIOLOGICAL ASSETS

Provision is made for non-consumable biological assets to now be considered as tangible fixed assets for the purposes of acceptance of the respective depreciation for tax purposes.

CARRY FORWARD OF TAX LOSSES

The budget bill also proposes that it will be possible to deduct tax losses made in a specific taxation period up to the fifth following taxation period. This is only currently possible up to fourth taxation period. The State Budget Law Bill makes it clear that this alteration applies to tax losses made in taxation periods that begin on or after 1 January 2012. Provision is also made for the deduction to be made in each of the taxation periods to have a limit of 75% of the respective taxable profits. However, this does not prejudice the deduction of the part of these losses that has not been deducted under the same conditions and up to the end of the respective period of deduction.

PROOF UNDER THE RETGS

This alteration also applies under the RETGS (Special Regime for Taxation of Groups of Companies) and provision is also made here for the reduction from six to five years of the period for cancellation liquidation, even when additional, of IRC (corporate income tax), made following corrections to tax losses declared by the taxable person. Finally, in the case of commercial companies that deduct tax losses in two consecutive taxation periods, the new law removes the requirement for legal certification of the accounts by an official accountant.

PAYMENTS TO NON-RESIDENTS WITH A PRIVILEGED REGIME

The new budget law removes the right to deduct amounts paid or due indirectly, on any basis, to individuals or companies resident outside Portugal in a place where they are subject to a clearly more favourable tax regime, whenever the taxable person is or should be aware of the destination of such amounts. The law makes it clear that the knowledge of the destination of the amounts is presumed to exist when there is a special relationship between (i) the taxable person and the individuals or companies resident outside Portugal in a place subject to a clearly more favourable tax regime or (ii) the taxable person and the representative, trustee or intermediary who makes the payment to the said individuals or companies.

IMPUTATION OF NON-RESIDENTS WITH A PRIVILEGED REGIME

Provision is made for the imputation of profits or income earned by entities not resident in Portugal and subject to a clearly more favourable tax regime to persons taxable in respect of IRC who are resident in Portugal to apply not only when the latter hold, directly or indirectly, at least 25% of the capital, but also when they hold 25% of the voting rights or of the rights over the income or the assets of these companies. Furthermore, in this context, provision is made for the said imputation to take place even if the 25% of the capital, percentage of voting rights or rights over the income or the assets of these companies, is held through a representative, trustee or intermediary. Similarly, it is proposed that it will no longer be possible to deduct - under this system for imputation of profits, up to the end of the five following taxation periods - the remainder of the amount of tax credit for international double taxation that could not be deducted because of a lack of taxable income in the taxation period in which the profits previously imputed had been distributed.

TAX DOSSIER

In the same area, provision is made for the tax documentation process ("tax dossier") of taxable persons that hold 25% of the capital, or 25% of the voting rights or the rights over the income or the assets of entities that are not resident in Portugal and subject to a clearly more favourable tax regime to now include all legal instruments that relate to voting rights or rights over income or assets. It is made clear that, for the purposes of determining the percentage of shares in capital held, the percentage of voting rights or rights over income or assets of the said companies, the capital shares and rights held, directly and indirectly, by entities with which the taxable person has a special relationship are also taken into consideration. Finally on this issue, provision is made for the rules on imputation of income of non-resident entities subject to a clearly more favourable tax regime not to apply whenever the entity not resident in Portugal is a resident of or established in another Member State of the European Union or in a Member State of the European Economic Area. However, in the case of the EEA, the Member State must be committed to administrative cooperation in the tax area which is equivalent to the cooperation established in the European Union. The taxable person must also be able to show that the incorporation and operation of the entity were for valid economic reasons and that it carries on economic activity of an agricultural, commercial or industrial nature or in the provision of services.

PROOF UNDER THE RETGS

Provision is made for proof of meeting the conditions for the application of the RETGS to be the responsibility of the dominant company.

IRC (PERSONAL INCOME TAX) RATES

Provision is made for the elimination of the reduced rate of 12.5% applicable to income of up to €12 500.00. Instead there will be a single rate of 25%. However, there is also a proposal for the introduction of a special rate of 30% for income from capital paid or made available to non-resident entities without permanent establishment in Portugal, which are domiciled in a country, territory or region subject to a clearly more favourable tax regime.

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STATE SURTAX	Provision is made for an increase in the basis of assessment of the state surtax. This will now be charged on the part of the taxable income that exceeds €1 500 000.00 (under current legislation, only taxable income in excess of €2 000 000.00 is subject to the surtax). There is also a proposal for an increase in the rate of the state surtax (currently 2.5%) to 3%, on the slice of taxable profits between €1 500 000.00 and €10 000 000.00 and of 5%, on the slice of taxable profits exceeding €10 000 000.00.
STATE SURTAX IN UNDER THE RETGS	When the RETGS applies, provision is also made for the rate of the state surtax to be applied to the taxable profits established in the individual periodic declaration of each of the companies of the group, including the dominant company, and it is made clear that the said changes apply to taxable profits for the two taxation periods that begin on or after 1 January 2012.
UNDOCUMENTED EXPENSES	The budget bill proposes the higher rate of 70% applicable to undocumented expenses will also apply to taxable persons that earn income directly resulting from activity subject to the special gambling tax.
ADDITIONAL PAYMENT ON ACCOUNT	Provision is made for the additional payment on account resulting from the increases in the state surtax – owed by entities obliged to make payments on account and special payments, whenever the state surtax was due in the previous taxation period – will be 2.5% on the part of the taxable profits for the previous taxation period between €1 500 000.00 and €10 000 000.00 and 4.5%, on the part of the taxable profits exceeding €10 000 000.00. Under current legislation, the additional payment on account is 2% of the part of the taxable profits exceeding €2 000 000.00 for the previous taxation period. In this respect, it is provided that a rate of 2.5% on the amount of €8 500 000.00, and 4.5% on the taxable profits that exceed €10 000 000.00 apply as a payment on account in addition to the amount of the part of the taxable profits for the previous taxation period that exceeds €10 000 000.00. The law also provides that these changes apply to additional payments on account for the two taxation periods that begin on or after 1 January 2012.
SIMPLIFIED BOOKKEEPING SYSTEM	Provision is made for the simplified bookkeeping system – the obligation to register income, expenses and inventory on the part of entities that do not carry on, as their principal activity, commercial, industrial or agricultural activity – to apply whenever the total income earned in each of the two previous financial years does not exceed €150 000.00 (under current legislation, the limit is €75 000.00, with reference to the immediately preceding financial year) and the taxable person does not opt for organised accounting that allows the control of profit earned from these activities. The new law also includes a proposal for the requirement for organised accounting to cease to apply whenever, in two consecutive financial years, the amount of €150 000.00 is exceeded.
TAX REPRESENTATIVE	The appointment of a tax representative will be optional for entities considered to be resident for tax purposes in other Member States of the European Union or the European Economic Area, as long as, in the latter case, this Member State is committed to administrative cooperation in the tax area which is equivalent to the cooperation established in the European Union.
GRANTING OF SUBSIDIES	The budget bill proposes that entities that pay non-reimbursable subsidies or grants to taxable persons for IRC must file a declaration with the DGCI (Directorate-General of Contributions and Taxes) on the official form in respect of income attributed in the previous year. The form must be filed by the end of February of each year.
COMPUTER EQUIPMENT AND INVOICING SOFTWARE	Provision is made for the exceptional depreciation arising from the loss, in the 2012 taxation period, of computer programs and equipment for invoicing - that is substituted as a consequence of the requirement for certification of software for the purposes of complying with the accounting obligations of companies - to be automatically considered as an impairment loss. Furthermore, it will not be necessary for the taxable person to obtain the respective acceptance from the tax authorities. Provision is also made for the expenses of the acquisition of computer programs and

equipment for certified invoicing acquired in 2012 to be considered as a tax expenses in the taxation period in which they are borne.

V. VALUE ADDED TAX – VAT (*IMPOSTO SOBRE THE VALOR ACRESCENTADO – IVA*)

EXEMPTION Provision is made for the exclusion of the VAT exemption applicable to the transfer of copyright and authorisation of the use of intellectual work when the author that makes the transfer is a company.

TAXABLE AMOUNT The budget bill proposes new rules on the determination of the taxable amount in operations between taxable persons that have special relationships (related entities under article 63 (4) of the IRC Code). In this case, the criteria of normal value prevail rather than the value of the consideration obtained or to be obtained from the other party or from a third party. This exception to the general rule for determining the taxable amount can be excluded if it can be proved that the difference between the consideration and the normal value is justified by circumstances other than the special relationship between the parties. This is an anti-abuse rule that seeks to prevent situations of manipulation of the value of operations and of the VAT assessed in transactions between entities that have special relationships and restrictions on the right to the deduction.

MICRO-ENTITIES Provision is made for taxable persons to whom the system of accounting standardisation for micro-entities applies to be excused from having to file a declaration of accounting and tax information and annexes in respect of the application of Decree-Law no. 347/85 of 23 August (VAT rates applicable in the Autonomous Regions of the Azores and Madeira).

DECLARATION OF CHANGE The budget bill proposes that taxable persons are not required to file a declaration of change relating to the start of activity whenever the changes in question refer to facts subject to registration at the commercial registry and to entities registered on the central file of companies that are not subject to commercial registration.

SPECIAL EXEMPTION SYSTEM Provision is made for taxable persons exempt by reason of turnover under article 53 of the VAT Code (and not required to comply with the various requirements under the VAT Code), to be required to include in their summary declaration of intra-EU operations, the provision of services to taxable person located in other Member States, when the operations are not taxable in Portugal.

OFFICIAL ASSESSMENT The budget bill proposes new rules for the official assessment of VAT by the tax authorities. These rules are based on the details of the taxable person or the respective sector of activity and the following minimum limits are established: (i) an annual amount equal to six times the guaranteed minimum monthly income for taxable persons under the monthly system, and (iii) an annual amount equal to three times the guaranteed minimum monthly income for taxable persons under the quarterly system.

CHANGES FROM THE REDUCED RATE TO THE NORMAL RATE

As regards the reduced rate of 6% (still 4% in the Autonomous Regions where the budget bill does not propose any changes to the current rates), the bill provides that this will no longer apply to the following goods and services, which will be taxed at the normal rate of 23% (still 16% where the budget bill does not propose any changes to the current rates): (i) soya desserts; (ii) water with added substances, (iii) whole or cut fresh peeled potato that is pre-fried, refrigerated, frozen, dry or dehydrated, whether in purée or prepared by means of boiling or frying; (iv) cold drinks, juice syrups, concentrated juice drinks and concentrated juice products; (v) shows, sporting competitions and demonstrations and other public entertainment; and (vi) natural raffia. This proposal represents an increase of 17% in the rate of VAT currently applicable to the goods and services referred to above in mainland Portugal, and of 12% in the Autonomous Regions.

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CHANGES FROM THE REDUCED RATE TO THE INTERMEDIATE RATE

As regards the reduced rate of 6% (4% in the Autonomous Regions), the bill provides that this will no longer apply to transfers of spring, mineral, medicinal and table water, sparkling or carbonated water (with the exception of water to which other substances have been added). These waters will now be taxed at the normal rate of 13% (still 9% in the Autonomous Regions where the budget bill does not propose any changes to the current rates). For mainland Portugal this proposal represents an increase of 7% in rate of VAT currently applicable to the goods referred to above, and an increase of 5% in the Autonomous Regions.

CHANGES FROM THE INTERMEDIATE RATE TO THE NORMAL RATE

As regards the intermediate rate of 13% (9% in the Autonomous Regions), provision is made for this to cease to apply to the following goods and services, which will be taxed at the normal rate of 23% (16% in the Autonomous Regions): (i) heating oil; (ii) fruit conserves; (iii) fruit and dried fruits; (iv) conserves of horticultural products; (v) Directly edible oils and mixtures of the same (food oils); (vi) margarines of animal and vegetable origin; (vii) green, raw or toasted coffee in bean or powder form and substitutes and mixtures of the same; (viii) aperitifs based on horticultural products and seeds; (ix) products prepared from meat, fish, vegetable horticultural products, pasta with fillings, pizzas, sandwiches and soups, even when presented frozen and pre-frozen and ready-to-eat meals sold as ready-to-eat and take away or with home delivery; (x) aperitifs or snacks made from corn and wheat extracts, from ground and fried corn or potato starch, in individual packages; (xi) devices, machinery and other equipment exclusively or principally used for the harvesting and use of solar, wind and geometric energy; harvesting and use of other alternative forms of energy; production of energy from incineration or transformation of refuse, household and other waste; prospecting and search for oil and development of oil and natural gas discoveries; and measurement and control to avoid or reduce the various forms of pollution; (xii) provision of food and beverage services. This proposal represents an increase of 10% in the VAT rate currently applicable to the goods and services referred to above in mainland Portugal, and of 7% in the Autonomous Regions.

SALES TO NATIONAL EXPORTERS

In order to simplify its application, the budget bill proposes a redefinition of the conditions of application of the VAT exemption system to sales to national exporters of merchandise

INTRA-EU TRANSACTIONS

The minimum limit from which taxable persons must provide a summary statement to be filed by the 20th of the month following the one to which the operations relate is to change from €100 000 to €50 000.

GAS FUELS

The budget bill proposes the substitution of the special taxation system for gas fuels by the normal VAT system from 1 January 2012. A number of transitional arrangements will be applicable.

VAT REFUND

Provision is made for the maintenance during 2012 of the system of VAT refunds applicable to private institutions for social solidarity and to Santa Casa da Misericórdia de Lisboa. However, the amount subject to refund is limited to 50% of the VAT paid.

RULES FOR WHEN VAT IS DUE TO THE STATE

The Government plans to carry out the consultation and studies necessary to present a proposal for the introduction, during 2012, of a simplified and optional system allowing for VAT to be paid to the State when it is received by the taxable person, rather than when the invoice is issued. This system is intended for micro companies that are not exempt from the tax.

"VAT PACKAGE" – RENTAL OF TRANSPORT AND BOATS

Provision is made for the Government to be authorised to proceed with the transposition of the "VAT Package", as regards the place of provision of services in specific rentals of means of transport and boats.

INVOICING AND CHARGEABILITY OF VAT

Provision is made for the Government to be authorised to proceed with the transposition of Council Directive no. 2010/45/EU of 13 July 2010 on invoicing and chargeability of the tax.

ELECTRONIC SENDING OF INVOICES

Provision is made for the Government be authorised to approve a system that sets up and regulates the electronic issue and sending of invoices and other tax related documents.

VAT CREDIT

Provision is made for the creation of deductions for IRS (personal income tax), IMI (municipal property tax) or IUC (single road tax) corresponding to a value of up to 5% of the VAT due and actually paid by the taxable persons in the acquisition of goods or services, up to a specific limit.

VI. MUNICIPAL PROPERTY TAX (IMPOSTO MUNICIPAL SOBRE IMÓVEIS - IMI)

START OF TAXATION

The budget bill proposes that the year in which the said property appeared on the respective inventory is taken into consideration to determine the start of the IMI taxation in the case of land for construction owned by a company which has the object of constructing buildings to sell, or buildings owned by a company that has the object of selling them. The start of taxation will no longer be based on the year in which the property in question appears as an asset or working asset. The new wording of the rule that determines the start of the IMI in the case of land for construction owned by a company which has the object of constructing buildings to sell will be interpretative in nature.

DECLARATION FOR VALUATION

Provision is made - for the purpose of dispensing with the filing of the final drawings and parcelling projects at the Tax Office – that it will no longer be necessary to present the final drawings and parcelling projects to the Municipal Council in digital format. As a consequence, it will not be necessary for the taxpayer to make a reference to that fact in the tax return.

VALUE FOR TAXATION PURPOSES

The budget bill proposes the definition of the adjustment coefficient for areas of land for construction, applied to authorised or planned buildings, in accordance with the following rules: (i) when there is only an application, the corresponding table applies; when there is more than one application, with specification of the area, the table corresponding to each one of the applications applies; (ii) when there is more than one application and it is not possible to establish the specification referred to above, the table for the economically dominant application applies. The budget bill also proposes an increase in the maximum limit for the location coefficient from 2 to 3.5. This naturally brings an end to the increase in the location coefficient (to 3) currently provided for areas with a high value real estate market.

VALUATION COSTS

The budget bill proposes that taxpayers should bear the costs of any valuation made at their request, whenever the value challenged increases, and no longer only in cases in which that value remains the same. It is also proposed that, in the case of a second direct valuation of rural buildings requested by the taxable person, if respective value for taxation purposes (VTP) remains the same or increases, this gives rise to an obligation to reimburse the DGCI for the costs of the valuation carried out. Finally, an increase is proposed to the minimum and maximum limits of the initial rate due for the request for a second valuation of urban buildings. The rate is based on the complexity of the issue - to be set between 7.5 and 30 units of account and rather than the current 5 to 20 units of account – and the non-repayment of the respective amount if the VTP is considered distorted.

RATES

Provision is made for an increase of 0.1 percentage points in the minimum and maximum limits of the rates of IMI applicable to urban buildings that have not yet been valued under the IMI Code, and to urban buildings valued under the said legislation. In the former case, the said rates will change from between 0.4% and 0.7% to between 0.5% and 0.8%. In the latter case, the rates will change from between 0.2% and 0.4%, to between 0.3% and 0.5%.

VACANT BUILDINGS

For buildings that have been vacant for more than one year, the budget bill proposes the same increase in IMI rates (the one applicable to urban buildings that have not

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yet been valued under the IMI Code and to urban buildings that have already been valued) that is currently in place for buildings in ruins. This means a threefold annual increase in the said rates rather than the twofold increase that has applied up to now.

ENTITIES IN TAX HAVENS

For buildings owned by entities that have their tax domicile in a country, territory or region subject to a clearly more favourable tax regime, appearing on the list approved by the Order in Council of the Minister of Finance, the budget bill proposes an increase in the respective IMI rate of 2.5 percentage points to 7.5%.

CORRECTIONS TO THE REAL ESTATE TAX VALUATION RECORDS

The budget bill proposes that the head of the a tax office may, at any time, rectify any error in the real estate tax valuation records - with the exception of cases in which to do so would cause a change to the VTP resulting from a direct valuation – on the grounds that the record is out of date. In this case, the rectification may only take place after three years have passed from the date of the closing of the record in which the result of the valuation was registered.

UPDATING OF THE VTP

The budget bill proposes that the VTP of urban buildings for commercial, industrial or service use should be updated annually – a not every three years as is currently the case – on the basis of factors corresponding to the currency devaluation coefficients – and no longer on the basis of factors corresponding to 75% of the said coefficients, as currently happens. However, all other urban buildings will continue to be updated every three years on the basis of 75% of the currency devaluation coefficients.

VAT CREDIT

The Government will also be authorised to create an IMI deduction corresponding to a value of 5% of the VAT payable and actually paid by taxable persons in the acquisition of goods or services, subject to an upper limit.

VII. MUNICIPAL TAX ON TRANSFERS OF PROPERTY FOR VALUE (*IMPOSTO MUNICIPAL SOBRE THE TRANSMISSÕES ONEROSAS DE IMÓVEIS- IMT*)

RATES

In cases in which the buyer of the property is resident or has its registered office in a country, territory or region subject to a more favourable tax regime appearing on the list approved by the Order in Council of the Minister of Finance, the budget bill proposes an increase in the respective IMT rate of 2 percentage points to 10%.

LIMITATION PERIOD

The budget bill proposes that, when benefits expire, the limitation period for IMT should begin to run from the date on which the benefits ceased to have effect.

EBATE

The budget bill proposes the repeal of the rebate system for IMT unduly paid in the last four years, regardless of the annulment of the respective assessment, applicable only in cases in which the taxpayer has not used the appropriate means as laid down in the Tax Proceedings and Procedure Code (CPPT) in due time.

VIII. STAMP DUTY (*IMPOSTO SELO*)

EXPIRY

The budget bill proposes the alteration of the period for expiry of the right of assessment of Stamp Duty (SD) due on the acquisition for value of a right of ownership or other rights over real estate assets subject to taxation under the terms of item 1.1 of the General Table, from the current four years to eight years from the transfer or the date on which the exemption ceased to have effect.

ANNUAL DECLARATION

The budget bill proposes to dispense with the presentation of the annual itemised declaration for SD assessed for taxable persons to which the accounting normalisation system for micro-entities applies.

REBATE

In similar way to IMT, the budget bill proposes the repeal of the system for rebates of SD unduly paid in the last four years, applicable only in cases in which the

	taxpayer has not used the appropriate means as laid down in the Tax Proceedings and Procedure Code (CPPT) in due time.
EXEMPTION FOR GUARANTEES	The budget bill proposes an exemption from SD in the setting up, in 2012, of guarantees in favour of the State or the social security institutions, in the context of payment in instalments of debts payable in enforcement proceedings or tax and social security debt recovery operations.
REPO OPERATIONS	The budget bill proposes the extension to 2012 of the exemption from SD on repo operations for securities or equivalent rights carried out on the stock market as well as the repo and the fiduciary disposal transfer in a guarantee made by financial institutions with the intervention of central counterparties.
IX. EXCISE DUTIES (IMPOSTOS ESPECIAIS DE CONSUMO - IEC)	
<i>(i) GENERAL</i>	
EXCISE DUTY STATUTES	Provision is made, as grounds for the official repeal of the statues in the area of excise duties, for the supervening non-compliance with the requirements (e.g. good standing, guarantees and change in the principal activity).
DUTY SUSPENSION	The budget bill proposes that, in the domestic circulation of products under excise duty suspension, a guarantee will no longer be required for public or regulatory bodies or in transport of products subject to excise duty at the zero rate.
RESERVE TANKS	The budget bill proposes the reduction from 50 to 10 litres of the maximum quantity of fuel that can be transported in a "reserve tank" (e.g. cross-border trade) in order to combat tax evasion.
EXCISE STAMPS	Provision is made for the concept of "release for home use" to also cover cases in which it is deemed that the (irregular) introduction for home use of products subject to excise duty has taken place for reasons linked to excise stamps (e.g. incorrect use, loss, excess of loss).
ELECTRONIC TRANSFER OF DATA	The bill includes legislative authorisation for the Government to provide for notifications generated by the Directorate-General for Customs and Excise (DGAIEC) to be sent electronically by computer system.
<i>ii) TAX ON ALCOHOL AND ALCOHOLIC DRINKS</i>	
RATES	The budget bill proposes that the rate of tax on alcohol and alcoholic drinks, in general, should increase by 2.3%, in accordance with what the rate of inflation for 2012 is expected to be.
BEER	Provision is made for an increase in the tax on beer with a degree Plato of between 7 ° and 8 °. This will be put into place, in technical terms, by broadening the 3rd scale of taxation which will include the degrees Plato between 7 ° and 11 °. Up to now the scale only included the degrees Plato between 8 ° and 11 °. However, this is a marginal situation (possibly to avoid "deviations") as most of the beer consumed in Portugal at the moment is of 10 ° and this only goes up by 2.3%.
SPIRITS	The budget bill also proposes an increase in the tax on spirits but, in this case, the tax rate goes up by 4.6%.
MEASUREMENT OF PRODUCTS AND EXCISE STAMPS	Provision is made for improvement in the wording of the IEC Code in respect of measuring products and to the rules on excise stamps.
ACQUISITION OF EXCISE STAMPS	The budget bill proposes that the acquisition of excise stamps by economic operators that do not have status in the context of excise duties will be conditional upon the prior provision of a guarantee of 25% of the value of the tax involved. This measure is aimed at controlling and combating fraud.

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	<i>(iii) TAX ON TOBACCO</i>
TAX RATES	For cigarettes, provision is made for tax to be increased through the specific component (from €69.07 to €78.37 per thousand) with the tax charged through the <i>ad valorem</i> component (from 23% to 20% of the Retail Sale Price) losing its relevance.
CIGARETTES	The budget bill proposes a change in the structure of the rates in light of the class of cigarettes that sells the most, with the tax increasing by around 4.6 %.
CIGARS AND CIGARILLOS	The budget bill proposes that cigars and cigarillos, deemed to be prestige products the taxation of which is exclusively <i>ad valorem</i> , will suffer a significant increase with the rate increasing from 13% to 15%. This brings the Portuguese rates into line with those in force in Spain.
FINE CUT TOBACCO	Provision is made for the tax rate for fine cut tobacco for hand-rolled cigarettes to go up from 60% to 61.4% and, for all other smoking tobacco, from 45% to 50%. This shows that shows that the Government is continuing to follow closely the tendency of smokers to change from cigarettes to less distinguished forms of tobacco. As regards the tax on fine cut tobacco for hand-rolled cigarettes, the rate cannot be lower than €0.075 per gram. Cigarettes that do not belong to the most sold class of prices will be taxed at least 100.5% of the taxation applicable to the tobacco from the most sold class of prices.
ACQUISITION OF EXCISE STAMPS	The budget bill proposes that the acquisition of excise stamps by economic operators that do not have status in the context of excise duties will be conditional upon the prior provision of a guarantee of 25% of the value of the tax involved.
THE FIGHT AGAINST FRAUD AND TAX EVASION	Provision is made for the ban on the sale in mainland Portugal of tobacco declared for consumption in the Autonomous Regions of Madeira and the Azores to be widened to "distance selling" (by post or others). Minimum rates to be applied to certain products are also established.
	<i>(iv) TAX ON ELECTRICITY</i>
TAX ON ELECTRICITY	In compliance with Directive 2003/96/EC, the budget bill proposes the establishment of the principle of the taxation of electricity. A number of articles from the Excise code have been altered for this purpose (objective incidence, subjective incidence, taxable event, exemptions, taxable unit, etc.).
RATE	As an alternative to the setting of the rate of the special tax on electricity in the IEC Code, the Government chose to set only the range within which the rate can vary, which is from €0.0 MW/h to €1 MW/h. It should be noted that the values of the minimum rates set at the EU level (annex C of the Directive) are from €0.5 Mw/h for companies and from €1.00 MW/h for families.
EXEMPTIONS	Provision is made for electrified rail transport (e.g. Fertagus, CP, the Metropolitan railways, trams and trolleys) to be exempt from the tax in accordance with EU policy for these sectors. The budget bill proposes that low income families will also be exempt
COLLECTION	The budget bill proposes that the tax on electricity will be collected by the companies selling electric energy and they will pay this to the State in the second month following the invoicing of the client. The extension of this deadline (for other excise duties, payment is in the following month) is justified by the fact that the metering of consumption is done by the network operators and not by the sellers.
	<i>(v) TAX ON OIL AND ENERGY PRODUCTS</i>
LIQUID FUELS	As yet nothing is known on the Government's possible intention to update the rates of Tax on Oil and Energy Products (<i>Imposto sobre os Produtos Petrolíferos e Energéticos - ISP</i>) applicable to diesel and petrol. This updating is made by Order in Council

at legally established intervals and it has been advised not to do so given that the consumption of these products has been falling year by year. It should be added that the difference in the tax burden between Portugal and Spain is significant and this means that an increase in ISP could lead to an increase in fraud and tax evasion, especially in light of the large gap that also separates the VAT rates of Portugal (23%) and Spain (18%).

GAS FUELS	Provision is made for an increase of 2.3% in the rates of ISP applicable to liquefied petroleum gases (butane and propane) used as motor vehicle fuel (from €125/1000 kg to €127.88/1000 kg). The same thing will happen to the ISP rate for natural gas fuel which goes from €2.78/gj to €2.84/gj.
HEATING OIL	The budget bill proposes the increase from €260/1000 litres to €400/1000 litres of the upper limit of the range for the rate of ISP on heating oil. This allows for an increase in the taxation of the product which will be put into effect by an Order in Council from the Government.
TAX WAREHOUSE FOR PROCESSING	Provision is made for the definition of the concept of tax warehouse for processing to appear in the IEC Code in order to fill in the gap existing in the legislation. The fact that the definition of the concept is presented in a simple way and, as appropriate, strictly tied to the definition of tax warehouse for production, is to be welcomed.
ROAD SERVICE CONTRIBUTION	The budget bill proposes that the amounts of ISP that make up the revenue allocated to the company "EP - Estradas de Portugal E.P.E." be increased, for petrol, from €64/1000 litres to €65.47/1000 litres and for diesel, from €86/1000 litres to €87.98/1000 litres.

X. TAX ON MOTOR VEHICLES

(i) MOTOR VEHICLE PURCHASE TAX (IMPOSTO SOBRE VEÍCULOS - ISV)

RATES OF TAX	Provision is made for no alteration to be made to the structure of the tables of rates, either in relation to the cubic capacity, or in relation to the environmental component (CO2 emissions).
LIGHT PASSENGER VEHICLES	The budget bill proposes that the rates of ISV applicable to light passenger vehicles and all other vehicles covered by Table A will see an increase of up to 5% on the cubic capacity component and 7.5% on the environmental component. These increases give rise to a fear of a "slow death" of the sector. In fact, the above increases are made worse by the increases in VAT which mean that in total, they reach 6.15% and 9.23% respectively – an average of 7.7%.
PARTICULATE EMISSIONS	Provision is made for diesel light passenger vehicles with particulate emissions equal to or greater than 0.003 g/km (previously 0.005 g/km) to be subject to an increase of €500 in the amount of ISV to be paid, or €250 in the case of light goods vehicles.
LIGHT GOODS VEHICLES	Provision is made for the ISV rates for light goods vehicles (Table B), which apply exclusively to the cubic capacity of the vehicle, to see an increase of 5% going up to 6.15% when the respective VAT is taken into account. The budget bill proposes that light goods vehicles with open or closed boxes or no box, with a maximum of three seats including the driver, which are currently excluded from ISV, will become subject to tax at a reduced rate of 10% of Table B, so as to achieve a fairer distribution of the tax burden for motor vehicles.
INTERMEDIATE RATES	In addition to this, the budget bill proposes that the intermediate rates of 30% and of 10% applied up to now to certain types of light goods vehicles will increase to 50% and 15% respectively. Together with VAT these increases are enormous and difficult to justify given that they apply to vehicles used for work.

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“DERIVATIVE” VEHICLES	Provision is made for what are known as “derivative” vehicles to become subject to tax at 100% (currently 55%) of Table B. This puts an end to a specifically Portuguese situation that no longer made sense.
THREE-WHEELER MOTORBIKES AND QUAD MOTORBIKES	For motorcycles, three-wheelers and quad bikes, the budget bill proposes that ISV, which up to now only applied to vehicles with a capacity of 180 cm ³ or more, will also apply to vehicles with a capacity of between 120 and 180 cm ³ . Provision is also made for the two previous scales of rates (of 180 cm ³ to 750 cm ³ and more than 750 cm ³) - the rates for which varied between €53.84 and €105.37 – to be broken down into 5 scales with rates that can vary between €60 and €200. This represents a large increase in taxation.
TAXIS	The budget bill proposes that the reduction of 70% in the rate of ISV, which benefits vehicles introduced for consumption as taxis, will be come subject to the requirement that the respective level of CO ₂ emission of the vehicle does not exceed 160 g/km. This measure is one of environmental protection and road safety.
RENT-A-CAR	The budget bill proposes that the reduction in the rate of ISV from which rent-a-car companies benefit will change from 50% to 40%.
OLD VEHICLES	Provision is made for the taxation of what are known as “old vehicles” or “collectors’ vehicles” to also see a substantial increase from 55% to 100% of Table B. At the same time, the tax will also apply to motorcycles to which Table C applies and it is further proposed that the reduction in taxation arising from the respective “years of use” will continue to apply in both cases.
<i>(ii) SINGLE ROAD TAX (IMPOSTO ÚNICO DE CIRCULATION - IUC)</i>	
PASSENGER VEHICLES REGISTERED UP TO 30/06/2007	Provision is made for the rates of IUC for passenger vehicles registered before the reform of motor vehicle taxation (prior to 1/07/2007) to be increased by 2.3%, with the exception of the rates for the two highest scales where the increase reaches 7.5%
PASSENGER VEHICLES REGISTERED AFTER 30/06/2007	The budget bill proposes that, in respect of the cubic capacity component, the rates of IUC for passenger vehicles registered after the reform of motor vehicle taxation (since 1/07/2007) be increased by 2.3%, with the exception of the rate in the highest scale where the increase reaches 7.5%. Provision is also made, in the environmental component, for the rates of IUC for passenger vehicles registered after the reform of motor vehicle taxation (since 1/07/2007) to be increased by 4.6%, with the exception of the rate for the last scale which goes up to 7.5%.
GOODS VEHICLES	The budget bill proposes that the rates for goods vehicles should be increased by 2.3%. This increase covers not only “private use” as was usually the case, but also “professional use”.
MOTORCYCLES	Provision is made for the rates for motorcycles to be increased by 2.3%.
PLEASURE BOATS	The budget bill proposes an increase in the rate for pleasure boats for private of 7.4%.
AIRCRAFT	Provision is made for the rates for aircraft for private use to increase by 7.4%.
VAT CREDIT	The budget bill proposes that the Government also be authorised to create an IUC deduction corresponding to a value of up to 5% of the VAT due, and actually paid, in the acquisition of goods or services. The deduction is subject to an upper limit.

XI. TAX BENEFITS

EXPIRY	The Government proposes a broadening of the range of tax benefits which are not subject to the expiry period of five years laid down in the Tax Benefits Statute status (EBF). The said broadening covers: the tax benefits granted to Corporate Holding Management Companies (<i>Sociedades Gestoras de Participações Sociais - SGPS</i>), the tax benefits granted on the reorganisation of companies as a result of acts of concentration or cooperation agreements, and the tax benefits granted to cooperatives.
PENSION FUNDS	The budget bill proposes the widening of the IRC (corporate income tax) exemption in respect of the income of pension funds and their equivalents, which are set up and operate in accordance with the domestic legislation, to income generated by pension funds which are set up and operate in accordance with the legislation and are established in Member State of the European Union or the European Economic Area.
FUNDS AND PLANS FOR SAVINGS & RETIREMENT (<i>FUNDOS E PLANOS DE POUpanÇA REFORMA</i>)	The Government proposes that, in cases in which the participant receives any income or, in other words, is granted reimbursement of certificates, the tax benefits granted will cease. All the amounts deducted, increased by 10% for each year or part year that has passed since the one in which the right to the deduction was exercised, must be added to the taxable amount for IRS for the year in which the payment occurs, except in the event of the death of the subscriber or when at least five years have passed from the respective delivery and any of the situations defined by the law occurs. The Government also proposes that the tax benefits provided for the taxation of the amounts paid by the savings-retirement funds do not take effect when the reimbursement of the certificates occurs outside the situations provided for in the law, and the income will be taxed at the rate of 21.5%.
PUBLIC CAPITALISATION SYSTEM	Provision is made for the rules for Savings-Retirement Funds (<i>Fundos Poupança-Reforma</i>) and Savings-Retirement Plans (<i>Planos Poupança Reforma</i>) to apply to the amounts paid in the form of a life annuity or redemption of accumulated capital.
SECURITIES INVESTMENT FUNDS	The Government proposes that the taxation of capital gains earned from securities investments will be made at the rate of 21.5% on the positive difference between the capital gains and capital losses for each year.
REAL ESTATE INVESTMENT FUNDS	Provision is made for the taxation rate of 20% of the income from real estate investment funds to be charged on the net income after conservation and maintenance costs and municipal property tax.
SAVINGS PLANS IN SHARES	Provision is made for the positive difference between the value due at the time of closing of savings plans in shares and the amounts handed over by the subscriber to the shares to be subject to a final withholding tax rate of 21.5%, without prejudice to the possibility of aggregation, at the choice of the taxable person, in which case the tax withheld has the nature of a payment on account.
CAPITAL GAINS BY NON-RESIDENTS	The Government proposes an exemption from IRS (personal income tax) and IRC (corporate income tax) for capital gains made by non-resident individuals and entities without permanent establishment in Portugal who are domiciled in a country, territory or region with which no international agreement to avoid double taxation or tax information exchange agreement is in force, as long as the country, territory or region in question is not one subject to a more favourable regime that appears on the list approved by the Minister of Finance.
SGPSS, SCRS AND ICRS	The system applicable to Corporate holding management companies (<i>Sociedades Gestoras de Participações Sociais - SGPS</i>), risk capital companies (<i>Sociedades de Capital de Risco - SCR</i>) and risk capital investors (<i>Investidores de Capital de Risco - ICR</i>) will become independent from the one applicable to SGPSSs, and in general terms, the SGPSS system will remain unchanged.

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URBAN BUILDINGS	The budget bill proposes that the IMI exemption for urban buildings built, extended, improved or acquired for value which are destined for housing should be reduced to a period of three years, and only benefit taxable persons or households whose taxable income for the purposes of IRS in the previous year was not greater than €153 300.00 and properties for which the taxable value does not exceed €125 000.00.
BUILDINGS WITH A REDUCED VALUE FOR TAX PURPOSES AND LOW INCOME	Provision is made for rural and urban buildings to be exempt from IMI when they belong to taxable persons whose gross total household, subject to aggregation, for the purposes of IRS, is not greater than 2.2 times the annual value of the SSI and the overall value for tax purposes of all the rural and urban buildings belonging to the taxable person does not exceed 10 times the annual value of the SSI.
WINE-PRODUCING COMMISSIONS	The budget bill proposes a total exemption from IRC for the income of regional wine commissions, with exception of income from capital as defined for the purposes of IRS.
SPORTS CLUBS	The budget bill proposes that the amounts invested by sports clubs in new infrastructures, not coming from subsidies, can be deducted from the basis of assessment for tax up to the limit of 50%. The excess is deducted up to the end of the second financial year following the investment.
INTELLECTUAL PROPERTY	The budget bill proposes that the income from intellectual property should be considered part of the aggregation for IRS purposes only in respect of 50% of its value, with an upper limit of €20 000.00.
PATRONAGE	The budget bill proposes a broadening of the types of entities for which donations received by them are considered costs or losses of the financial year, up to the limit of 6/1000 of the turnover or of the services provided.
HEALTH INSURANCE	Limitation of the IRS tax allowance to 10% of the premiums and insurance or contributions paid to mutual associations or not-for-profit institutions whose object is to provide healthcare which, in either case, exclusively cover health risks, with the limit of €50 or €100, depending on whether or not the taxable person is single or married and not judicially separated.
ROAD TRANSPORT OF PASSENGERS AND GOODS	The tax benefits provided for the transport of passengers and goods by road are extended to the financial year 2012.
COOPERATIVES	Provision is made for the repeal of the Cooperative Tax Statute, with the system of benefits applicable to cooperatives to be laid down in the Tax Benefits Statute.
SYSTEM TO BENEFIT THE INTERIOR OF THE COUNTRY	Provision is made for the repeal of benefits under the tax system to benefit the interior of the country, specifically the reduction to 15% of the rate of IRC applicable to companies operating in areas of the interior.
PRIVATE EDUCATION ESTABLISHMENTS	Provision is made to repeal the tax benefits granted to private education establishments.
RENEWABLE ENERGIES	Provision is made for the repeal of the tax benefits granted for the acquisition of equipment for use of renewable energies.
TIME DEPOSITS	Provision is made for the repeal of the tax benefits granted for income from deposit certificates and bank deposits set up for periods exceeding five years which are not negotiable.
INTERNATIONAL SCIENTIFIC COMPANIES AND ASSOCIATIONS	Provision is made for the repeal of the tax benefits for international scientific companies and associations, which consist, essentially, of the possibility for the Minister of Finance to grant a total or partial IRC exemption to not-for-profit international scientific companies or associations wanting to set up business Portugal.

PATRONAGE OF THE INFORMATION SOCIETY	Provision is made for the repeal of the tax benefits applicable to patronage of the information society.
SCIENTIFIC PATRONAGE	Provision is made for the repeal of the Scientific Patronage Statute.
SIFIDE II	The Government proposes that SIFIDE - the system of tax incentives for business research and development - in force for the tax periods from 2011 to 2015, will continue to apply but with the following alterations: (i) operating expenses up to the maximum amount of 55% of costs of personnel directly involved in R&D tasks are considered deductible; (ii) the eligibility of the costs of carrying out R&D projects necessary to comply with obligations under public contracts depends on prior notice; (iii) the costs of acquisition, registration and maintenance of patents that are predominantly intended for carrying out R&D activities and of R&D audits will only be accepted for micro, small and medium-sized companies.
RFAI	The budget bill proposes that the tax system for investment support (Regime Fiscal de Apoio ao Investimento - RFAI) will remain in force until 31 December 2012.
SECURITIES REPRESENTING DEBT ISSUED BY NON-RESIDENT ENTITIES	The income from securities representing public and non-public debt issued by non-resident entities, which is considered as earned in Portugal under the IRS and IRC Codes, benefits from an exemption from IRS and IRC when it comes to be paid by the Portuguese State as guarantor of the obligations assumed by companies in which it is a shareholder together with other Member States of the European Union.
XII. TAX JUSTICE	
TAX DOMICILE	The budget bill proposes that the concept of tax domicile will also include the electronic mailbox, under the terms provided for in the public electronic mailbox service. In this context, taxable persons for IRC with their registered office or de facto management in Portugal and permanent establishments of companies and other non-resident entities, as well as taxable persons in the normal VAT system, will be subject to the obligation to create an electronic mailbox.
TAX REPRESENTATIVE	The budget bill proposes that non-resident or resident taxable persons who move to Member States of the European Union or the European Economic Area - in the latter case as long as there is administrative cooperation in the tax domain equivalent to that established in the European Union - are no longer required to appoint a representative for tax purposes.
REVERSION OF DEBTS IN LIQUIDATION OF A COMMERCIAL COMPANY	In the event of a request from the court liquidator to take over tax enforcement cases, provision is made for the movement of the proceedings to the court to be preceded by an order from the tax enforcement organ in respect of the reversion of the debts.
COMPENSATORY INTEREST FOR UNDUE PAYMENT	In the period from the date of the end of the period for voluntary payment under a final judgment and the date of issue of the credit note, provision is made for interest to be due at a rate equivalent to double the rate of interest applicable for debts to the State and other public bodies. Provision is made for an interim provision under which this rule has immediate application to final court decisions for which enforcement is pending at the date of entry into force of the State Budget Law. However, this only applies to the period from the date of entry into force of the said law.
PENALTY INTEREST	The budget bill proposes that the late payment interest applicable to tax debts will be due up to the date of the respective payment. This rule will have immediate application to all tax enforcement cases pending at the date of the entry into force of the State Budget Law. However, this only applies to the period from the date of entry into force of the said law. The rate of interest for late payment is the one defined in the law applicable to debts to the State and other public bodies, except in the period

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	<p>between the date of the end of the period for voluntary payment under a final court decision and the date of payment of the debt relating to the tax that should have been paid under the final court decision. In this case the rate applied will be double the usual rate.</p>
EXPIRY	<p>If the right to collection relates to chargeable events connected to a country, territory or region subject to a more favourable tax regime, appearing in the Order in Council approved by the Minister of Finance, it is provided that the expiry period will be raised to 12 years.</p>
SUSPENSION OF PERIOD FOR EXPIRY	<p>The budget bill proposes the suspension of the expiry period from presentation of a request for revision of the taxable amount up to notification of the respective decision.</p>
LIMITATION PERIOD	<p>In the case of tax debts for which the right to collection relates to chargeable events connected to a country, territory or region subject to a more favourable tax regime appearing in the Order in Council approved by the Minister of Finance, it is provided that the expiry period will be raised to 15 years.</p>
EXEMPTION FROM GUARANTEE	<p>Provision is made for the decision on exemption from the provision of a guarantee for suspension of tax enforcement proceedings will be valid for the period of one year. The enforcement debtor must be notified by the tax authorities at least 30 days before the deadline. If no application is made for a new exemption or the request for exemption is refused, the suspension of the enforcement proceedings will be lifted.</p>
ELECTRONIC PROCEDURE	<p>Provision is made for the regulation, by an Order in Council from the Minister of Finance, of the electronic procedure for acts in tax proceedings and also for the presentation in electronic format of any document, specifically, applications, statements and petitions to be mandatory.</p>
DEADLINES IN PROCEEDINGS	<p>The budget bill proposes that the deadline for conclusion of tax proceedings should be reduced to four months. It is also provided that acts in tax proceedings must be done within the supplementary period of eight days.</p>
PRINCIPLE OF COOPERATION	<p>It is proposed that information for taxpayers on their rights and duties - specifically in the case of periodic obligations and requests to the taxpayer to regularise their tax situation and to the exercise of the right to a reduction in the fine, when the tax authorities detect an infringement that is not criminal in nature - should be included in the scope of situations covered by the principle of cooperation between the tax authorities and taxpayers</p>
USE OF INFORMATION AND COMMUNICATION TECHNOLOGIES	<p>Provision is made for the tax authorities to be able to use information and communication technology in tax proceedings. For this purpose, the tax authorities will have the use of a service on the Internet which will provide functions identical to those available at the physical premises of the tax authorities. Furthermore, an Order in Council from the Minister of Finance will identify the obligations in respect of tax returns, payment, petitions, applications and other communications which must be sent by electronic means. The Order in Council will also identify the acts and communications for which the tax authorities must use the same means.</p>
LISBON 3 TAX OFFICE	<p>The 'Lisbon 3' Tax Office is named as the tax office with authority to deal with the tax affairs of taxable non-resident persons that do not have a permanent establishment or a tax representative in Portugal.</p>
BINDING ADVANCE RULINGS	<p>The budget bill proposes that the deadline for providing binding advance rulings of an urgent nature should be increased to 120 days, and that binding advance rulings cannot include facts covered by tax inspection proceedings when the taxpayer has been given notice of the start of those proceedings prior to the request. In the case of a binding advance ruling of an urgent nature, it will no longer be necessary for the acts or facts intended to be brought into the legal-tax framework to be prior to the request. The deadline for answering requests by taxable persons, other interested</p>

parties or their legal representatives, made by electronic means and in the official form, to be approved by the head of the tax office, will be increased to a maximum of 150 days. The deadline for recognition of the urgent character of the binding advance ruling by the tax authorities is increased to 15 days. If the urgency is recognised, the taxpayer must pay the amount due within five days. The fee for urgent provision of a binding advance ruling is increased to between 25 and 250 units of account (U.A. 102 euros) and the fees must be set in accordance with the complexity of the case. If the elements presented by the taxpayer for the provision of a binding advance ruling are insufficient, the tax authorities give notice to the taxpayer to remedy the problem within ten days. The penalty for failure to meet the deadline is the archiving of the proceedings and suspension of the deadline for decision.

EFFECTS OF A FAVOURABLE DECISION

In the event of a favourable decision by the authorities, express provision is made for the taxpayer to be put into the situation that would have existed in the present and, also, for the payment of compensatory interest.

CERTIFICATES AND LETTERS OF REQUEST

Provision is made for the certificates of acts and terms of tax and legal proceedings, as well as of proof of tax rolls or other elements filed with the tax authorities, whenever computerised, to be provided within three days. In proceedings and cases that are not computerised, the certificates and terms must be provided within five days.

AUTHENTICATION

The budget bill proposes that the certificates of acts and terms of tax and of legal proceedings, as well as for proof of tax rolls or other elements filed with the tax authorities, whenever computerised and issued electronically, should be authenticated by an identification code making it possible for any interested party to consult the electronic original available at the tax authorities' electronic service on the Internet.

ARCHIVING OF CASES

Provision is made for the tax authorities and the tax courts to register and archive administrative and legal proceedings started electronically, so as to make it possible to consult them using a range of search criteria. These archives must be kept for ten years from the date of the decision in administrative proceedings or of the final judgment in legal proceedings.

MODELS FOR FORMS

The budget bill proposes that the forms to be used in tax administrative proceedings which are not computerised, including tax enforcement proceedings, follow the models approved by the member of the Government or executive organ on which the services of the tax authorities depend.

WARNINGS AND NOTICES

For acts done by electronic means by the head of the tax office, provision is made for notices sent by email to be authenticated by a certified advanced electronic signature.

PERFECTION OF ELECTRONIC NOTICES

If a taxpayer does not access their email inbox, provision is made for the notice to be deemed given on the 25th day after it was sent, except in cases in which it is proved that the taxpayer communicated a change of email address in accordance with the applicable rules or that the taxpayer proves it was impossible to do so.

ELECTRONIC NOTICES OR SUMMONSES TO LEGAL ENTITIES OR COMPANIES

The budget bill proposes the use of a company or legal entity's email address as a way of serving summonses and notices.

NOTICES OR SUMMONSES TO THE STATE AND OTHER PUBLIC BODIES

The budget bill proposes electronic means as a way of serving summonses and notices on local authorities or other public bodies. If the notice or summons is for a State public service and is not sent by electronic means, it must be served on the person of the president, director-general or equivalent, except where the law makes provision to the contrary.

OBLIGATION TO NOTIFY CHANGE OF DOMICILE

Provision is made for it to become mandatory to communicate a change in tax domicile or registered office or email address within fifteen days.

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TAX RETURNS	When a substitute tax return results in higher tax or a lower rebate than the one previously established, the budget bill provides that the tax return - when substituted before the deadline for an administrative appeal or a legal challenge in respect of the assessment - no longer needs to be filed at the tax office for the tax domicile of the taxable person.
APPLICATION OF THE ANTI-ABUSE RULES	The budget bill proposes that the procedure for the application of anti-abuse rules laid down in the CPPT will only be applicable to the general anti-abuse clause. It will no longer also apply to the other rules of this nature on specific issues. Provision is also made for the said general anti-abuse clause to be applied at any time and the reduced period of three years currently in force for its application will cease to exist.
CERTIFICATES OF DEBT	The budget bill proposes that the certificates should be issued electronically and authenticated by the advanced electronic signature of the issuing entity.
COMPENSATION FOR DEBTS	Provision is made for the compensation of debts made at the initiative of the tax authorities to cease to be mandatory and for it no longer to be necessary for the said compensation to be made between taxes administered by the same entity.
TERRITORIAL JURISDICTION	For jurisdiction in tax enforcement proceedings, provision is made for generic reference to be made to the tax authorities and not to the local peripheral organ. The budget bill also proposes that proceedings should be started and enforced in the organ of the tax authorities that is designated by an order from the head of the tax office. Whenever there is no such order, it is established that the enforcement action is to be taken in the local peripheral organ covering the registered office of the debtor, the location of the assets or of the collection. This provision does not apply in the case of tax fines and respective costs for which the local peripheral organ for the area where the proceedings that gave rise to them will have jurisdiction.
JURISDICTION OF THE TAX COURTS	Provision is made for the Tax Court of 1st Instance with jurisdiction to be the one for the area of the domicile or registered office of the debtor, unlike the previous system which gave jurisdiction to the court "for the area where the enforcement is taking place".
INFORMATION ON THE PROVISION OF A GUARANTEE	The budget bill proposes that the information on the amount of the debt being enforced and any added amounts, as well as the guarantee to be given, is to be made available on the Internet portal of the tax authorities (Finanças). Provision is also made so that when no suitable guarantee has been given or when it has been dispensed with, within fifteen days of the presentation of any of the means of response, the tax authorities should proceed immediately with the enforcement measures.
INSUFFICIENCY OF THE GUARANTEE	When the guarantee set up becomes insufficient, provision is made for the debtor to be given notice of this fact and of the obligation to make up the insufficiency or provide a new guarantee within fifteen days. The penalty for failure to resolve the problem is the lifting of the suspension of the enforcement. Provision is made for this rule to have immediate application in all tax enforcement proceedings pending as of the entry into force of the State Budget Law
EXEMPTION FROM PROVISION OF GUARANTEE	Provision is made for the deadline to make a request for exemption from the provision of a guarantee in order to suspend tax enforcement proceedings to be fifteen days from the date of presentation of proper means of reaction.
PAYMENT IN INSTALMENTS - DEADLINE	Provision is made for the extension of the deadline to request payment in instalments up to the appointment for sale of assets (as opposed to the deadline of opposition to the enforcement). However, the provision that the debtor can request payment in kind up to the deadline to present opposition to the enforcement remains in place.
FORMALITIES OF THE SUMMONS	The budget bill proposes that the summons should indicate that the suspension of the enforcement and the regularisation of the tax situation depend on the existence of a suitable guarantee, the value of which should be stated in the summons, or in the alternative the debtor must obtain an authorisation to dispense with it.

PERSONAL SUMMONS	Provision is made for the summons to be personal when there is a need to proceed to the sale of the assets.
PERSONAL SUMMONS AND SUMMONS BY PUBLICATION	The budget bill proposes that, if the personal summons is served by registered letter with recorded delivery and this is returned or the respective record of delivery is not signed because the addressee refused or did not collect the letter within the legal period, and it cannot be proved that the taxpayer communicated a change in their domicile or registered office for tax purposes, the summons is re-sent in a new registered letter with recorded delivery to the person summonsed. This second summons informs the addressee of the fact that the summons will be deemed served on the date certified by the postal service distributor or, in the event the postal notice has been left, on the 8th day after this date, presuming that the addressee of the summons is aware of the documents left for him, without prejudice to proving that it was not possible to communicate the change in his domicile of registered office, as required for postal summonses.
CONSTITUTION OF LEGAL CHARGE OR ATTACHMENT	Provision is made for the means of enforcement to be established electronically or by official document and for the debtor to be given notice under the terms set out in the summons.
WIDENING OF THE SITUATIONS IN WHICH PAYMENT CAN BE MADE IN INSTALMENTS	Provision is made for the possibility to request payment in instalments of Community own resources debts and debts resulting from the failure to pay tax withheld at source or legally collected from third parties when exceptional financial difficulty and foreseeable grave economic consequences can be demonstrated. The maximum number of instalments is twelve monthly payments and the value of any them may not be lower than one unit of account at the moment of authorisation. In the context of the plan for economic recovery and also, when the risks inherent to debt recovery recommend it, provision is made to allow the tax authorities to extend the instalment payments up to a maximum of 150 payments. The previous maximum was 60 instalments over 5 years.
GUARANTEES	Provision is made for bank guarantees, collateral and performance bonds, or any other means of securing the debts of the debtor, to be set up in favour of the tax authorities by electronic means, under terms to be defined by an Order in Council from the Minister of Finance. Provision is made for this rule to take effect immediately in all tax enforcement proceedings pending at the date the State Budget Law comes into force.
FORMALITIES FOR ATTACHMENT OF ANY ALLOWANCES OR SALARY	Provision is made – when the subject of the attachment is any (i) allowances or salaries of public employees or employees of any public law bodies or, (ii) the salaries of employees of private companies or individuals – that the failure to summons the entity responsible for processing the discounts does not prevent the application, in the respective tax enforcement proceedings, of the amounts deposited, if the summons is not returned or, if returned, does not indicate the new address of the debtor. This rule also applies in the case of lack of access to the electronic mail box. The budget bill proposes, however, that the said application does not prejudice the exercise of the rights of the debtor, specifically in respect of presenting an opposition to the enforcement.
SUMMONS OF PREFERENTIAL CREDITORS AND OF THE SPOUSE	Provision is made for the deadline for summoning unknown creditors, as well as the successors of preferential creditors, to be reduced to ten days.
UNKNOWN CREDITORS AND UNENTITLED SUCCESSORS OF PREFERENTIAL CREDITORS	The budget bill proposes that the summoning of unknown creditors and successors with no entitlement should be made in a single notice at the organ of tax enforcement where the proceedings are taking place.
CARRYING OUT THE SALE	Provision is made for the elimination of the possibility for the sale to be suspended on the basis of the value of the credits claimed by other creditors.

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THE SALE OF ATTACHED ASSETS	Provision is made for the deadline for the last electronic auction to be reduced from twenty to fifteen days.
ADVERTISEMENT OF SALE	Once a sale has been determined, provision is made for the advertisement to be published on the Internet alone.
RESERVE VALUE OF THE ASSETS TO BE SOLD	Provision is made for the reserve value of rural property to be determined, by the updated value for tax purposes on the basis of currency correction factors, under Decree-Law no. 287/2003, of 12 November.
LACK OF BIDS	The budget bill proposes that, when the value of the bids is lower than the reserve price, the tax enforcement organ can acquire the assets, which will revert in favour of the Public Treasury as long as the conditions already laid down in earlier legislation are met.
SALE FORMALITIES	The budget bill proposes that the period for the purchaser to deposit the total price in favour of the enforcement organ will begin to run from the adjudication decision. Furthermore, in acquisitions of a value greater than 500 times the unit of account (€51 000.00), the request to be presented by the purchaser for authorisation to deposit only part of the price must be filed within five days of the adjudication decision. Provision is also made for the non-payment of the price due from the purchaser by the legal deadline to prevent that purchaser from presenting any bid in any tax enforcement sale for a period of two years.
DEADLINES TO CANCEL THE SALE	Provision is made for any request to cancel the sale to be addressed to the peripheral regional organ of the tax authorities. Within 45 days and after hearing all the interested parties, this organ can allow or refuse the request. The budget bill also proposes, in the absence of any decision by the tax authorities within the said period of 45 days, that there should be a tacit refusal of the request for cancellation of the sale. Whether the decision is express or tacit, it can be challenged by following the procedure for complaints in respect of the decision of the tax enforcement organ.
VOLUNTARY PAYMENT, PAYMENT ON ACCOUNT	The budget bill proposes that the payment of minimum a value of 20 % of the value of the debt claimed should suspend the sale in these tax enforcement proceedings for fifteen days.
VOLUNTARY PAYMENT	If the debt is cleared by voluntary payment, it is provided that the tax enforcement organ must declare the termination of the enforcement and immediately communicate this fact to the debtor by electronic means.
XIII. TAX OFFENCES	
EXEMPTION AND SPECIAL MITIGATION OF PENALTY	In order to benefit from exemption from or special mitigation in the penalty, provision is made for it to be mandatory for the taxpayer to put the situation into order before the accusation is presented.
CLASSIFICATION OF OFFENCES	Offences punishable with a maximum fine of €5750.00 will be classified as simple offences. Offences punishable with a fine greater than €5750.00 will be classified as serious offences. This is in addition to those offences expressly classified as serious by the law regardless of the level of the fine.
LEVEL OF FINES	Unless the law makes provision to the contrary, the fines applicable to legal entities, companies, even when irregularly set up, or other entities equivalent to them for tax purposes, may go up to a maximum of: a) €165 000.00, in cases with intent; b) €45 000.00, in cases of negligence. The minimum amount of the fine to be paid is €50.00, except in cases of a reduction in the fine in which it is €25.00.
RIGHT TO REDUCTION IN FINES	Fines paid on a voluntary basis are reduced as follows: a) If the request for payment is presented within 30 days of the offence and there has been no notice of offence

FINE DEPENDENT ON MISSING OR UNPAID TAX INSTALMENT AND CORRECTION OF THE FINES PAID	issued, no complaint made and no tax inspection proceedings started, to 12.5% of the legal minimum; b) If the request for payment for presented after the above deadline and there has been no notice of offence issued, no complaint made and no tax inspection proceedings started, to 25% of the legal minimum.
FCRIME OF TAX FRAUD	If the fine varies in accordance with the tax instalment, for the purposes of the right to a reduction in the fine, the minimum amount is considered to 10% or 20% of the tax instalment due depending on whether the offence was committed by an individual or a legal entity.
CRIMINAL ASSOCIATION	If the amount in question is high, provision is made for a penalty of a minimum of one year in prison. The maximum of five years remains in place. For legal entities, the fine is a minimum of 240 days and a maximum of 1200 days. It should be noted that each day of the fine amounts to between €1.00 and €500.00 for individuals, and between €5.00 and €5000.00, for companies or equivalent entities.
FRAUDULENT RELEASE FOR CONSUMPTION	Provision is made for a penalty of five years in prison – if another law does not provide for a more serious punishment – for anyone who supports groups (the current law provides for this only in situations in which the agent belongs to the group), organisations or associations, specifically by supplying arms, munitions, instruments of crime, warehousing, storage or meeting places, or any help in recruiting new members. Anyone who heads, directs or joins such groups, organisations or associations can be punished with two to eight years in prison unless another law provides for a more serious punishment.
AGGRAVATION	Provision is made for a new type of crime related to the fraudulent release for consumption of energy products. A provision is also introduced that whenever a tax benefit or advantage is obtained by false declarations or by any other fraudulent means, the agent will incur the same penalty of prison of up to three years or a fine of up to 360 days. The same penalties will apply to any person who, with intention of avoiding payment of the tax instalment due, releases a taxable vehicle for consumption and obtains a tax benefit or advantage by false declarations, or any other fraudulent means, if the value of the tax not paid exceeds €15 000.00.
SMUGGLING OF ITEMS USED TO INFLICT THE DEATH PENALTY OR TORTURE	The budget bill proposes that aggravated customs crimes should be punished by imprisonment of five years for individuals and a fine of 240 to 1200 days for legal entities.
CRIME OF AGGRAVATED FRAUD	In the case of importation or exportation of items which, in practice, can only be used to inflict the death penalty or torture or cruel, inhuman or degrading treatment as described in annex II of Regulation (EC) no. 1236/2005, of the Council 27 June, the agent will be subject to a punishment of five years in prison for individuals and a fine of 240 to 1200 days for legal entities.
CHANGE IN THE FRAMEWORK FOR OFFENCES	The budget bill proposes that the penalty for aggravated fraud (five years in prison for individuals and 240 to 1200 days' fine for legal entities) will be applicable when the illegal gain exceeds €50 000.00. In turn, provision is made for an even more serious penalty in situations in which the illegal gain exceeds €200 000.00. In this case, provision is made for eight years in prison for individuals and a fine of 480 to 1920 days for legal entities.
OMISSIONS OR INACCURACIES IN REQUESTS FOR A BINDING ADVANCE RULING	The budget bill proposes a generalised increase in the penalties for offences and, as a rule, the minimum and maximum fines applicable in each specific case are increased by 50%.
	The budget bill proposes a new type of legal offence in relation to omissions or inaccuracies in acts, facts or documents relevant to the appreciation of requests for a binding advance ruling provided with urgency. These will be punishable with a fine of €375.00 to €22 500.00. The limits set out above are reduced to a quarter for requests for a binding advance ruling not provided for above.

COST IN TAX PROCEEDINGS

FEE IN THE COURTS OF FIRST INSTANCE AND IN THE TAX DEPARTMENTS

XIV. REGULATION OF THE COSTS OF TAX PROCEEDINGS

The budget bill proposes the updating of the costs in tax proceedings.

In cases in which there is a need to confirm and rank credits, provision is made, in the context of tax enforcement proceedings, for the creditor or creditors making the claim to be obliged to pay an initial court fee as follows:

Claim for credits of	Normal Legal Fee (Unit of account)	Higher Legal Fee (Unit of account)
Up to €30 000.00	2	2
Equal to or higher than the €30 000.01	4	4

REDUCTION IN THE COURT FEES TO 1/3

The budget bill proposes a reduction in the fee to 1/3 whenever the petition is not received in proceedings to challenge or, if there is a withdrawal before the position presented of the representative of the Public Treasury is presented; if this does not happen before the expiry of the period for presentation; and in the tax enforcement proceedings if the debt is paid before being the summons is served in person or by notice.

REDUCTION IN THE COURT FEES TO 3/4

The budget bill proposes a reduction in the court fees to 3/4 when the proceedings to challenge end because of withdrawal before judgment; when payment is made in tax enforcement proceedings after a personal summons is served but still within the period to present opposition; and when, in tax enforcement proceedings, the payment is made in instalments and the plan for instalments is complied with in full and in a timely manner.

COSTS IN PROCEEDINGS TO CONFIRM AND RANK CREDITS COSTS

Provision is made for the updating of costs in proceedings to confirm and rank credits.

Provision is made for the updating of the costs of the Directorate-General of Taxes.

XV. TAX ARBITRATION

LEGAL SYSTEM FOR ARBITRATION IN TAX CASES

Provision is made for the consideration of the legality of acts setting the taxable amount to be possible only in situations that do not give rise to the payment of any tax.

SUSPENDING EFFECT

Provision is made for the repeal of the rule that payment has the effect of suspending proceedings or suspending the periods for the expiry of the State's rights to payment and for time limitation.

XVI. TAX ENFORCEMENT PROCEDURE IN THE SOCIAL SECURITY AND SOLIDARITY SYSTEM

CHANGE TO THE ENFORCEMENT PROCEDURE IN SOCIAL SECURITY AND SOLIDARITY PROCESS SECTIONS

Provision is made for the possibility of extending the period for payment in instalments to up to 60 instalments, as long as the debt exceeds 50 units of account (€5100). If the debtor is an individual and, as such, it is not a reversion procedure, the possibility of extending the number of instalments up to 60 is not conditional upon the amount of the debt. The extension can be up to 120 instalments as long as the debt exceeds 50 units of account and the taxpayer provides a suitable guarantee (or is exempted from the same). In any of the said cases, the actual determination of the number of instalments is not conditional upon the minimum payment limit.

XVII. OTHERS PROPOSALS

(I) NEW SYSTEM FOR TAX REGULARISATION OF ASSETS HELD ABROAD

NEW SYSTEM FOR TAX REGULARISATION OF ASSETS HELD ABROAD

The budget bill proposes the approval of the new system of tax regularisation, known by its Portuguese initials, RERT III, relating to assets held abroad. The new system is identical to the earlier RERT II, but without repatriation.

SCOPE

Provision is made for individuals and companies that own assets that were not in Portugal in 31 December 2010 - and consist of deposits, deposit certificates, capital shares, securities and other financial instruments, including insurance policies in the "life" field linked to investment funds and capitalisation operations in the "life" - to field benefit from this system.

REQUIREMENTS

To benefit from RERT III, taxable persons must: a) present a tax regularisation declaration which must be filed with the Bank of Portugal or other banks established in Portugal by 30 June 2012; b) annex the documents proving ownership and deposit or registration of the assets appearing in the said declaration; c) pay the amount corresponding to the application of the respective rate.

RATE

Provision is made for an increase in the tax supplement from 50% to 60% to be paid on income corresponding to the undeclared assets in the event of a failure to file the regularisation declaration or omissions or inaccuracies in it.

VALUE OF ASSETS

The rate will be fixed at 7.5 % (rather than the 5% provided for in RERT II) on the value of the assets appearing in the tax regularisation declaration. Provision is made for the determination of the value of assets appearing in the tax regularisation declaration to be done in accordance with the following rules, with reference to the date of 31 December 2010: a) as to deposits in financial institutions, the amount of the respective balance; b) as to shares in capital, securities and financial instruments quoted on a regulated market, the value of the latest quotation; c) as to unit holdings in collective investment undertakings not admitted to trading on a regulated market, as well as insurance in the "life" area linked to an investment fund, the value for redemption purposes; d) as to capitalisation operations in the "life" field and other capitalisation instruments, the capitalised value; f) in other cases, the value that results from application of the rules for determination of the taxable amount set out in the Stamp Duty Code or the respective cost of acquisition, whichever is the greater.

SECRECY

Provision is made that the tax regularisation declaration cannot, in any way, be used as an indication or relevant element for the purposes of any tax proceedings, whether civil or criminal, and the banks involved must ensure the secrecy of the information provided.

(ii) SPECIAL CONTRIBUTIONS

SPECIAL CONTRIBUTIONS

Provision is made for changes to the basis of assessment of special contributions for the increase in value brought by the investments in the Vasco da Gama Bridge, in Expo 98, in the CRIL, CREL, CRIP and CREP road systems, in the Tagus rail crossing and complementary rail sections and extensions to the Lisbon Metro system. These changes will also apply to the holders of a receipt for presentation of prior notice of planning operations accompanied by proof of its admission.

VALUE SUBJECT TO TAXATION

The value subject to taxation will be corrected by the application of the devaluation coefficients laid down for capital gains and capital losses in the IRC (personal income tax) Code. The date of acquisition will correspond to 1 January 1992 and the date of realisation will correspond to the date of issue of the licence for the construction or works, or of receipt of the prior notice of the planning operation.

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RETROACTIVE EFFECT	According to the bill, these changes will be interpretive in nature and will apply to all prior notices given since 3 March 2008.
	(iii) <i>BANKING SECTOR EXTRAORDINARY CONTRIBUTION</i>
BANKING SECTOR EXTRAORDINARY CONTRIBUTION	The budget bill proposes the extension of the rules that created the extraordinary contribution paid by the banking sector, and also proposes, in calculating the base on which the contribution is charged, that the deposits covered by the guarantee fund for agricultural credit (<i>Fundo de Garantia do Crédito Agrícola Mútuo</i>) be deducted from the liability.
	(iv) <i>OTHER</i>
TAX ID NUMBER (NIF)	Provision is made for the Government to be authorised, through the Directorate-General of Taxes, to review and systemise all the regulations on the attribution and management, exclusively for tax purposes, of the taxpayer's tax identification number. It is proposed that: (i) all the legal provisions on the creation of the taxpayer number should be included in a single piece of legislation; (ii) the rules for the issue of the tax identification card should be brought into line with the rules applicable to the citizen's card, company card and legal entity card; and (iii) procedures should be introduced to make it easier for taxpayers to meet their tax obligations.
ELECTRONIC INVOICING	Provision is made for the Government to be authorised to approve a system that sets up and regulates the electronic issue and sending of invoices and other tax-related documents and establishes rules that: (i) regulate the reliability and integrity of the sequence, the authenticity of the origin, the integrity and the non-rejection of invoices issued electronically; (ii) regulate the electronic sending of invoices from the issuer to the tax authorities (including the provision of facilities for issue and electronic sending); (iii) regulate the electronic sending of payment receipts (specifically rents and salaries); (iv) make it a mandatory for the items appearing in the Orders in Council relating to invoicing to be sent electronically; (v) regulate the electronic issue of documents for transport in circulation and their sending to the tax authorities; (vi) regulate the conditions and frequency of electronic sending of inventories to the tax authorities.
VAT CREDIT OF UP TO 5% ON THE INVOICES FOR GOODS AND SERVICES	The Government is also obliged to create IRS and IMI deductions of a value of up to 5% of the VAT charged and actually paid by the taxable persons in acquisition of goods and services.
TOLL COLLECTION AND FINES FOR ROAD SYSTEMS WHERE TOLLS ARE PAYABLE – CONSEQUENCES	For offences committed in road systems where tolls are payable, the <i>Instituto de Infraestruturas Rodoviárias, I.P</i> (road infrastructures institute) will no longer be responsible for issuing and dealing with proceedings in respect of offences committed and debt recovery for tolls, fines and administrative costs as well as late payment interest. These powers will pass to the tax office for the area of the tax address of the person committing the offence and, in future, revenue from fines will cease to be distributed 60% to the State and 40 % to the entity that collects them. The new proportions will be: 40 % to the State, 35% to the Directorate-General Of Taxes, 10% to the InIR – Instituto of the Infraestruturas Rodoviárias, I.P. and 15 % to the concessionaires, sub-concessionaires, entities that collect the tolls and the entities that manage the electronic systems for toll collection.
CREDITOR'S RIGHT OF PREFERENCE– CONSEQUENCES	These credits enjoy special right of preference over the vehicles in which the offences were committed and the law applicable on a subsidiary level changes from the <i>Regime General do Ilícito de Mera Ordenation Social</i> (general civil offences rules) to the <i>Regime General of the Infractions Tributárias</i> (tax offences rules).
INCOME FROM THE TAX STABILISATION FUNDS (FET)	The part of the income of the <i>Fundo de Estabilization Tributário</i> (tax stabilisation fund) coming from the income of the DGCI (Directorate-General of Contributions and Taxes) itself will be 10 % of the income of this body (rather than 40%).

RULES FOR WHEN VAT IS DUE TO THE STATE

The Government plans to carry out the consultation and studies necessary in order to present a proposal for the introduction, during 2012, of a simplified and optional system allowing for VAT to be paid to the State when it is received by the taxable person, rather than when the invoice is issued. This system is intended for micro companies that do not benefit from exemption from the tax.

THE DGCI'S OWN INCOME

The income of the DGCI (Directorate-General of Contributions and Taxes) will also include: (i) fees due for second valuations of urban buildings when paid by taxpayers; (ii) the reimbursement of expenses paid for first and second valuations (other than those not referred to) and which will be taken away from income transferred to the municipalities for the period in which they were incurred; (iii) the product of the percentage defined in the law for IMI charged in the years in which the general valuation of urban and rural buildings takes place; and (iv) the fees for the urgent provision of a binding advance ruling.

PORTUGUESE CARBON FUND

Provision is made for the Government to be authorised to transfer to the Portuguese Carbon Fund: (i) the revenue from the tax harmonisation between the heating gas oil and automotive gas oil; (ii) the revenue from the tax on low efficiency bulbs; (iii) the revenue from compensation for breach of the obligation to incorporate bio fuels; (iv) the income from auctions in the to the aviation sector; (v) the domestic income from auctions relating to the EU greenhouse gas emission allowance trading, better known on Portugal by its initials CELE (*Comércio Europeu de Licenças de Emissão*); (vi) any other income attributed to it.

AUDIOVISUAL CONTRIBUTION

Provision is made for the monthly value of the audiovisual contribution for 2011 to be set at €2.25, up from the current €1.74.

COLLECTION OF DEBTS AND FINES OF THE NATIONAL HEALTH SERVICE AND THE ADSE

The collection of debts relating to the provision of healthcare by the National Health Service will be placed in the hands of the tax authorities and failure to pay moderating fees (*taxas moderadoras*) after notice to do so will become an administrative offence with a fine corresponding to five times the value of the respective moderating fees, but never less than €50. The maximum value will correspond to five times the minimum value of the fine, with respect to the maximum limits laid down in the General Regime of Unlawful Acts of a Mere Social Order. Of the fine, 40% goes to the State, 35% to the entity that prepares the notice and 25% to the DGCI. Provision is made for the certificates of debts issued by the ADSE (the sickness assistance scheme for civil servants) which certify outstanding debts to be grounds for enforcement and collection of such debts will be carried out by the tax authorities (DGCI).

"Portuguese Law Firm of the Year"
Chambers European Excellence Awards, 2009; Shortlisted 2010, 2011/ Who's Who Legal Awards, 2006, 2008, 2009, 2010, 2011/The Lawyer European Awards- Shortlisted, 2010, 2011

"Best Portuguese Law Firm for Client Service"
Clients Choice Award - International Law Office, 2008, 2010

"5th Most Innovative Law Firm in Continental Europe"
Financial Times - Innovative Lawyers Awards, 2011

"Corporate Law Firm of the Year - Southern Europe"
ACQ Finance Magazine, 2009

"Best Portuguese Tax Firm of the Year"
International Tax Review - Tax Awards 2006, 2008

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