TAX INFORMATION

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June 2011

THE NEW PORTUGUESE GOVERNMENT'S TAX

On 28 June 2011 the 19th Constitutional Government's Programme was presented to the Portuguese parliament. The debate on the programme and the vote on its approval will take place on 30 June and 1 July and additional measures may be announced at that time.

The tax programme is based on the financial and economic support package for Portugal and the measures in the Memorandum of Understanding entered into with the International Monetary Fund, the European Central Bank and the European Commission (known as the 'Troika'). On the tax side, the objectives are the simplification of taxes and the widening of the tax base, improving the efficiency of the tax authorities and strengthening the fight against the informal economy and tax fraud and evasion. It is intended that tax revenue increases will be achieved principally through the elimination of or reduction in deductions, benefits and tax exemptions. This will result in the said widening of the tax base and may contribute to a more transparent tax system.

A reduction in benefits and tax deductions is planned for income tax on individuals and in relation to companies the proposal is for a reduction in deductions and special regimes. The proposals also include a reduction in the *Taxa Social Única* (the single rate for social security contributions by companies and employees) as a way of reducing production costs and stimulating the competitiveness of companies. This reduction will be compensated by additional "cuts" in public spending and increases in indirect taxes.

As far as incentives to small and medium-sized companies are concerned, the tax benefits given to business angels will be subject to re-evaluation, with a tax system that is more favourable to and compatible with the new Co-Investment Fund. Such companies will also benefit from a reduced rate of corporate income tax (in Portugal called *Imposto Sobre o Rendimento das Pessoas Colectivas* and referred to by its initials, IRC) applicable to international revenue. Tax exemptions will also be given for the recruitment of the long-term unemployed.

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ACQ Finance Magazine, 2009

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Clients Choice Award - International Law Office, 2008, 2010

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

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However, no express provision is included in the programme for the expected reduction in Imposto Municipal sobre as Transmissões Onerosas de Imóveis or IMT - the municipal tax on transfers of property for value.

For IRS this will involve a reduction in the current number of bands. At the moment there are eight bands with rates between 11.5% and 46.5%, as in other European countries. This is a measure that was contained in the Group for the Study of Tax Policy, Competitiveness, Efficiency and Justice in the Tax System prepared in 2009.

Another aspect of this revision worthy of mention is the need to make the tax system "sensitive to the size of the household" which could involve a change to the method for taxing a household's income. These measures for tax support on the basis of the number of dependents could, however, make the system more complex, but could also make it possible for there to be separate taxation as in other European countries.

In relation to the taxation of property, there is a proposal for a reduction in the temporary exemptions applicable to a (person's own) dwelling which will result in an increase in *Imposto Municipal sobre Imóveis* or IMI, which is the local property tax. A further result will be the updating of the tax values of properties. It will be important here to carry out a general re-valuation of real estate assets since most urban property is still to be valued and this creates inequalities. However, no express provision is included in the programme for the expected reduction in *Imposto Municipal sobre as Transmissões Onerosas de Imóveis* or IMT - the municipal tax on transfers of property for value.

In taxation on consumption, besides the reduction in respect of exemptions from value-added tax (in Portuguese, *Imposto sobre o Valor Acrescentado* or IVA), provision is also made for some categories of goods and services that are currently included on Lists I and II of the table annexed to the IVA Code – to which reduced and intermediate rates apply – to be altered. Provision is also made for the creation of a new cash system for companies "with lower turnover", a concept which, of course, will have to be defined. This system could also be applied to cases in which the other party is a public entity, including the State's business sector. These entities will then pay IVA when they actually receive payment from their clients as opposed to paying when the invoice is issued in accordance with the general rules.

Measures relating to the tax authorities, which are also covered by the Troika Memorandum of Understanding, have been announced. These include an increase of around 30% in the human resources allocated to tax authority inspections. The planned merger of the Directorate-General of Contributions and Taxes, the Directorate-General of Customs and Excise and the Directorate-General of IT and Tax and Customs Services Support into a single entity, and also the consideration being given to including the social security collection services in this operation, have not been expressly announced.

The creation of a stricter system of procedure and punishment for more serious tax crimes has been proposed for the administration of tax justice, as has the putting into place of measures to speed up the judgment of tax disputes. Other proposals include the creation of interest with rates that exceed market rates which will accrue to the amount of the debt in tax disputes and, in the event of failure to comply with a judgment, the application of special legal interest to be paid by the tax authorities. And with no surprise, tax arbitration has been announced.

These, among others, are the measures to be included in the strategic plan to be prepared by the Government to be put into effect between 2012 and 2014 with the aim of fighting tax evasion, tax fraud and the informal economy, strengthening tax inspection and increasing revenue through risk management mechanisms, as provided for in the Memorandum of Understanding.

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Lisbon, 30 June 2011
23/ 2011