INFORMATIVE NOTE

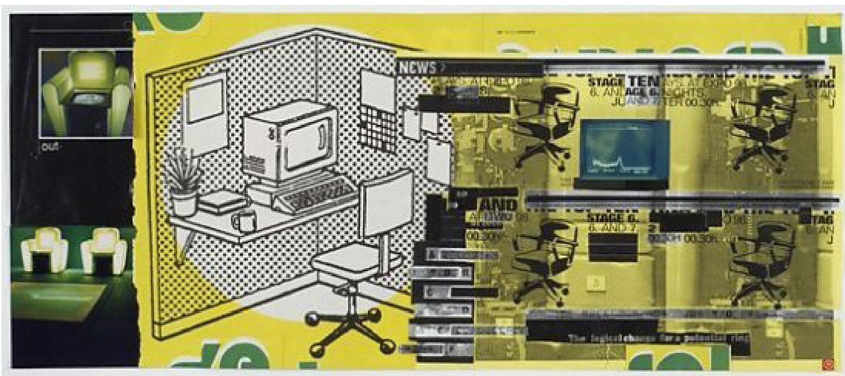
CORPORATE - TAX

EU/IMF BAILOUT PLAN TAX POLICY MEASURES (2011-2014)

The programme to condition economic policy proposed by the EU/ECB/IMF (know in Portugal as the Troika), contained in the Memorandum of Understanding on Specific Economic Policy Conditionality, of 3 May 2011 (MoU), includes a wide range of tax measures to be implemented in phases by the final quarter of 2014, most of which should come into effect in 2012.

In general, it can be said that the tax measures announced revive some of the legislative initiatives set out in Stability and Growth Programmes, known in Portuguese as the PEC, more specifically the PEC IV, where the most significant changes are those made to property taxation (which combines alterations to IMI (municipal property tax), IMT (property transfer tax) and IRS (personal income taxes), without forgetting some changes also made to corporation taxation (IRC).

It is also important to mention that the MoU proposed by the Troika includes a set of structural measures for managing taxes and the administration of justice for tax matters. The former deals with measures aimed at rational organisation of the tax authorities, namely merging the tax, customs and IT departments, and an increase in human resources allocated to tax inspections. The latter includes exceptional measures intended to free up the tax courts, as well as others to avoid and/or discourage their use and the slowing down of proceedings.



FUNDAÇÃO PLMJ **João Paulo Feliciano** (Detail)
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Below is a brief excerpt from the fiscal measures set forth in the MoU.

	I. CORPORATION TAX (IRC)
REDUCED RATES	Provision is made for the abolition of all reduced IRC rates, with the exception of those applicable in Madeira and the Azores, where the applicable reduction shall be limited to 20% (see below).
RATES APPLICABLE IN THE AUTONOMOUS REGIONS	The Regional Finance Law must be revised in 2012 with a view to limiting the general IRC reduction rate applicable in the Autonomous Regions to a maximum of 20%, in comparison with that in force on the mainland. It should be noted that the general IRC reduction rate applied in the Autonomous Regions may reach 30%.
TAX LOSSES	The deduction of tax losses will be limited considering the tax result and the current 4 year period for carry forward (6 years for tax losses obtained before 2010) will be reduced to 3.
TAX DEDUCTIONS	Although no specific deductions are specified, the MoU provides for limited income deductions (this should take place gradually between 2012 and 2014) and reversal of subjective exemptions currently in force.
TAX BENEFITS	Restrictions shall be introduced on current tax benefits, especially those subject to the sunset clause.
MOTOR VEHICLES	The tax regime on deduction of motor vehicles expenses is expected to be reinforced. Although the MoU does not indicate in the PEC how this is going to be done, it is expected that it will entail an increase in autonomous tax rates.
	II. PERSONAL INCOME TAX (IRS)
REDUCTION/ELIMINATION OF INCOME TAX DEDUCTIONS	Income tax will be deducted according to platforms in inverse proportion to the taxpayers' incomes scale, in line with the general guidelines set out in PEC IV. Elimination of income tax deductions for the highest income scale is expected (currently € 153 300). In line with the same general guidelines set out in PEC IV, the type of expenses eligible for income tax deduction is also expected to be reduced.
HEALTH EXPENSES	An absolute maximum limit is expected to be introduced for IRS deductions on the income of taxpayers and their respective family members, which is currently 30% of their expenses (except for the taxable income scale of over €66 045 to €153 330, where health expense deductions are limited to 1.666% of taxable income, with a limit of €1100; and the taxable income scale of over € 153 300, where the above mentioned deduction is limited to €1100).
EXPENSES OF INTEREST AND REPAYMENTS IN RESPECT OF PURCHASE OF PERMANENT RESIDENCE AND RENT	The current 30% income tax deduction (which is now limited on higher income scales – see health expenses above) with regard to repayment of the loan principal in respect of the purchase of a permanent home is expected to be eliminated. Provision is also made for the gradual elimination of the same deduction on income for interest owed on permanent home purchase and rental of property proven to be used for permanent taxpayers' residential purposes, except for low income households. Deduction of interest on new permanent home purchase loans will no longer be accepted. These measures, together with the expected alterations to property taxation, are aimed at discouraging people from purchasing their own homes and reactivating the rental market.
INCOME IN KIND	Taxation rules applicable to income in kind are also expected to be revised.
RATES APPLICABLE IN THE AUTONOMOUS REGIONS	The review of the Regional Finance Law (see above) should also limit the reduction of taxes applicable in the Autonomous Regions, in comparison with those in force on the mainland, to a maximum of 20%.
TAXATION OF SOCIAL BENEFITS	As from 2012, social cash benefits in general (e.g. unemployment benefit and maternity leave) which are currently exempt from IRS, are expected to be taxed.
SPECIFIC DEDUCTION ON PENSIONS INCOME	Conclusion of the convergence of the amount deducted from gross pension income with that applicable to gross employment income is expected, as provided for in PEC IV.

	III. VALUE ADDED TAX (VAT)
ELIMINATION OF EXEMPTIONS	Objective exemptions are expected to be reduced, although the MoU contains no guidelines on this subject.
ELIMINATION OF THE EXEMPTION OF VAT APPLICABLE TO POSTAL SERVICES	As from the third quarter of 2011, the exemption from VAT applicable to postal services is expected to be eliminated. It should be noted that the Competition Authority had already recommended a review of the tax framework applicable to postal services, more specifically the VAT exemption applicable to the Post Office for all services, in light of the liberalisation of the postal sector. The same issue had also been raised by the European Parliament.
MIGRATION OF PRODUCTS AND SERVICES FROM REDUCED AND INTERMEDIATE RATES TO THE NORMAL RATE	Goods and services are expected to be transferred from reduced (6%; 4% in Autonomous Regions) and intermediate VAT rates (13%; 9% in Autonomous Regions) to the normal rate (23%; 16% in Autonomous Regions). The categories concerned are not included in the MoU, which does not mention any criteria for their selection either. This measure was set out in the State Budget Bill for 2011 (it is still awaiting approval and inclusion in the final version of the document) and resumed in PEC IV.
RATES APPLICABLE IN THE AUTONOMOUS REGIONS	Similar to IRS and IRC, the review of the Regional Finance Law should limit the reduction of VAT in Autonomous Regions to 20% in comparison with that in force on the mainland.
INCREASE IN VAT APPLICABLE TO ELECTRICITY AND GAS	As from the fourth quarter of 2011, the current rate of 6% VAT applicable to electricity and gas is expected to increase.
	IV – PROPERTY TAXATION
PROPERTY TAXABLE VALUE (PTV)	The PTV of residential properties and land whose value has not been established under the IMI Code must be revised in order to adjust it to the market value before the end of 2012. This requires revising the urban property assessment model currently implemented by the Code as from the third quarter of 2011. The PTV of urban property for commercial use is also expected to be updated every year and a three-yearly update of the respective PTV must be implemented.
REBALANCING BETWEEN MUNICIPAL PROPERTY TAX (IMI) AND PROPERTY TRANSFER TAX (IMT)	The property tax system is expected to be rebalanced, implying an increase to the IMI by reducing exemption for permanent homes (see below) as oppose to a reduction of the IMT. The aim of this is to discourage people from buying houses, reduce home purchase loans and, consequently, family indebtedness, but above all, through a policy concerted in different sectors, promote the house rental market.
IMI EXEMPTION FOR PERMANENT HOMES	The 4 to 8 years temporary exemption of IMI applicable to permanent homes shall be reduced as from the third quarter of 2011.
UNOCCUPIED PROPERTIES AND PROPERTIES NOT RENTED OUT	As from the fourth quarter of 2011, the IMI is expected to increase for properties that are unoccupied and not rented out.

V. SPECIAL EXCISE DUTIES	
ISV EXEMPTIONS	All applicable exemptions are also expected to be eliminated as from 2012. Although this measure is not specified in the MoU, some typical exemptions are expected such as that applicable to taxis and rental vehicles, vehicles for use by private voluntary institutions and also for private use by handicapped people (limited to €7800).
TAX ON TOBACCO (IT) INCREASE	The Tax on Tobacco is expected to increase in 2012.
RATES	The increase in Special Excise Duties is expected to be indexed to the inflation rate in 2012.
NEW SPECIAL EXCISE DUTY ON ELECTRICITY	A new special tax on electricity is expected to be introduced in 2012. This measure entails implementing Council Directive 2003/96/EC, of 27 October 2003, which stipulates a minimum Excise Duty rate of €0.5 per MW/h, for corporate consumption, and €1 per MW/h for household consumption.

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