TAX INFORMATION

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THE PORTUGUESE GOVERNMENT'S TAX STRATEGY FOR 2011-2015

THE BUDGETARY STRATEGY DOCUMENT

The minister of finance has released the Budgetary Strategy Document (BSD) which sets out the government's budgetary policy for the next five years. The BSD specifies economic and budgetary previsions, some of the policy decisions taken and to be taken and the costs associated with them.

The strategy that has been announced in respect of tax policy is essentially based on putting into practice the measures agreed with the IMF, the ECB and the European Commission, known collectively in Portugal as the 'Troika'. In addition to this, further measures have also been announced to boost or ensure the reduction in the deficit to 5.9% this year: the introduction of a surtax (the extraordinary tax for budgetary adjustment) on personal income tax, known in Portugal as 'IRS' and the bringing forward of the change in the rate of value added tax (VAT) on energy products from the reduced rate to the normal rate (from 6% to 23%, on the mainland and from 4% to 16% in the autonomous regions of the Madeira and the Azores). The government's tax strategy appeared in the government's programme (see http://www.plmj.com/xms/files/newsletters/2011/Junho/O_PROGRAMA_FISCAL_DO_NOVO_GOVERNO_.pdf), and is based on four core ideas: broadening of the tax base, strengthening the fight against fraud and tax evasion, reforming the tax authorities and reforming the tax system itself. And one of the objectives targeted by the set of measures announced to broaden the tax base, in addition to increasing revenue, is the simplification of tax law, which is a commendable step.

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In the taxation of individuals, there will be a reduction in the number of IRS bands and a reduction in deductions for healthcare, education and property related expenses as well as other tax deductions. On the positive side, this could be an important contribution to a reduction in the unfortunate proliferation of special rules and exceptions resulting from exemptions and tax benefits, generally without real economic and social justification, as already provided for in the Troika Programme. It was also announced that the taxation of individuals with a higher level of taxable income of €153 300.00 and above per year, will go up again (this is assumed to be "temporary") as the applicable rate will increase 46.5% to 49% ("additional solidarity rate").

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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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A.M.PEREIRA, SÁRAGGA LEAL, OLIVEIRA MARTINS, JÚDICE E ASSOCIADOS

The taxation of companies is designed to achieve two objectives: internationalisation and increased competitiveness. For this, and without prejudice to the sacrifices already imposed and resulting from the current economic and financial situation and the Troika Programme – which translate into the elimination of the reduced rate of 12.5% and the rates and rules applicable to incentives for investment in inland regions, in repealing subjective exemptions and in the restriction and elimination of a number of tax benefits – provision is made for the reduction of the *Taxa Social Única* (TSU) or employer's social security contribution. As laid down in the Troika Programme, the reduction in the TSU will be compensated for by the changes to the VAT rates and this tax will also see a reduction in the number of exemptions. The option of a more marked and generalised reduction in the TSU, which has the support of the European institutions, is also under discussion, as is the alternative of a more selective reduction aimed at net job creation. The former "will allow a much greater reduction", but raises budgetary difficulties, but the latter would lead to other problems of execution and control. Furthermore, companies with taxable profits that exceed 1.5 million euros will also suffer an increase in taxation in the form of a half percentage point increase in the rate of the derrama estadual or state surtax from 2.5% to 3%.

In real property taxation, a revaluation of urban buildings has been confirmed by the end of 2012. This will allow the updating of the value of properties for taxation purposes and provision is also made for a reduction in exemptions, an increase in the *Imposto Municipal sobre Imóveis* (IMI) - local property tax - and a reduction in *Imposto Municipal sobre as Transmissões Onerosas de Imóveis* (IMT) - local property transfer tax, as also laid down in the Troika Programme.

In the context of strengthening the fight against fraud and tax evasion it should also be noted that the government is going to prepare a strategic plan for the period 2012 to 2014. This plan will include measures aimed at boosting the human and legal resources of the tax authorities, as also required by the Troika Programme, and a growing use of information technology, the general anti-abuse clause and the creation of a tougher system for prosecution and punishment, particularly for crimes of tax fraud, conspiracy and aggravated fraud.

Finally, as regards the tax authorities, the future merger into a single entity of the Directorate-General of Taxes (DGCI), the Directorate-General of Customs and Excise (DGAIEC) and the Directorate-General of IT and Support Services for Tax and Customs Services (DGITA) is worthy of note. This merger is aimed at guaranteeing (as the government provided and the Troika Programme suggested) greater efficiency in the allocation and use of existing resources and, consequently, a reduction in costs. In addition to this, priority will also be given to the modernisation of the activities of the tax authorities and to the objective of guaranteeing more uniform interpretation and application of the law.

We are now awaiting the measures that have already been promised for reduction in public expenditure and other structural reforms to be introduced, specifically in the 2012 State Budget Law.

Rogério M. Fernandes Ferreira
Mónica Respício Gonçalves
Marta Machado de Almeida
Maria Ataíde Cordeiro

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