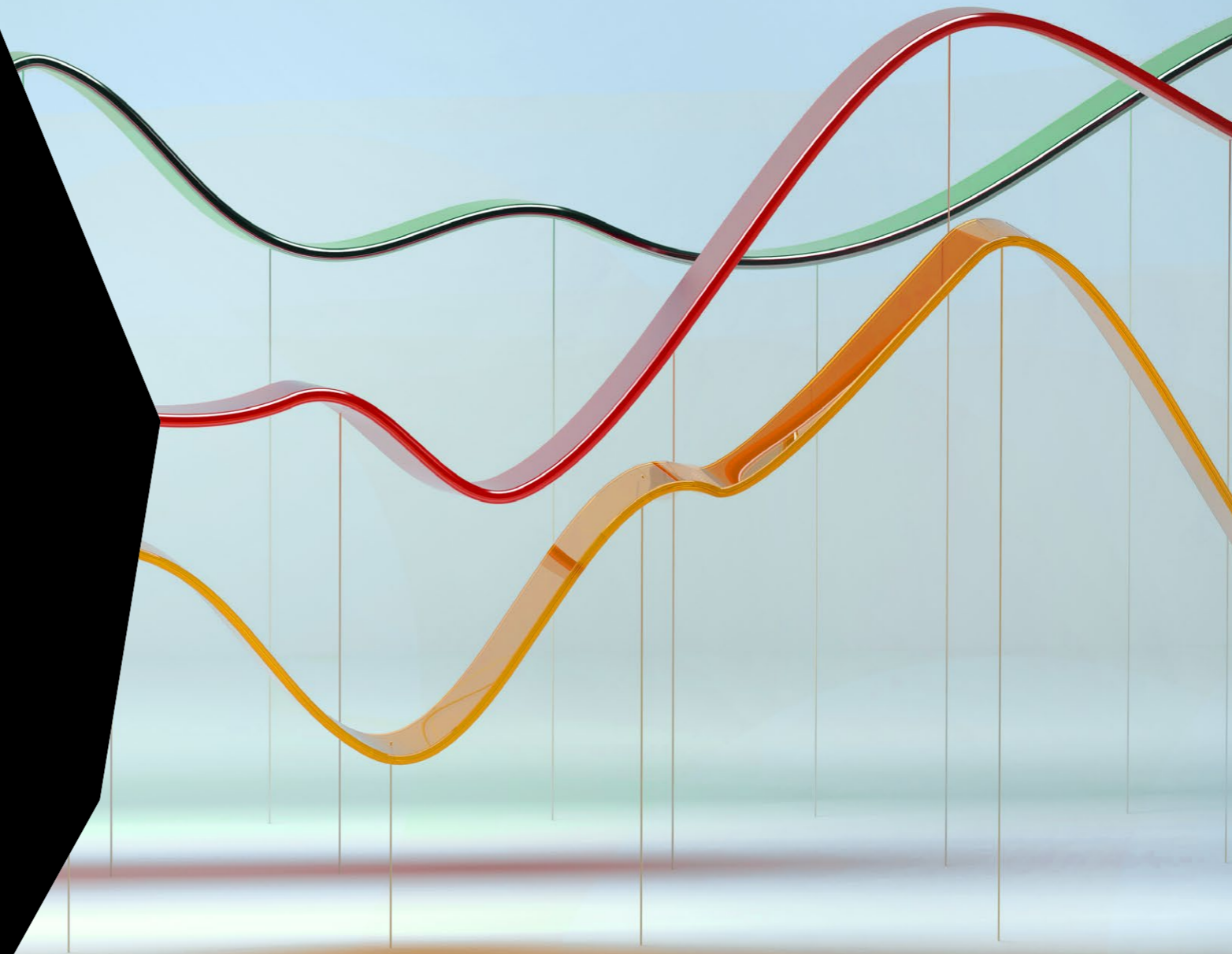


# State Budget Law Proposal for 2025

Summary of the  
main changes





## Introductory note

On 10 October 2024, the Government submitted the State Budget Bill for 2025 (Draft Law 264/XXIV/2024 - “**SB25 Bill**”) to the Portuguese Parliament. Its main objectives are economic growth and maintaining balanced public finances.

The report published by the government describes the 2025 State Budget as an essential tool for reducing the tax burden on individuals and companies. At the same time, it is intended to guarantee budget surpluses that will allow the public debt to continue to be reduced in a sustainable manner.

With this budget, the government aims to strengthen investment in strategic areas, increase productivity and competitiveness, and ensure the protection of future generations.

# Personal Income Tax

## CHANGES TO THE IRS JOVEM RULES

The SB25 Bill expands the scope of beneficiaries of the IRS Jovem (Young Peoples’ Personal Income Tax) scheme, allowing taxpayers up to the age of 35 who are not dependants to benefit from this scheme without having to prove a minimum level of education. Summary:

<b>SB25 BILL</b>	
<b>AGE</b>	<b>REQUIREMENTS FOR THE APPLICATION OF THE SCHEME</b>
<b>UP TO 35 YEARS OF AGE</b>	<ul style="list-style-type: none"> <li>o Earn Category A and/or B income;</li> <li>o Not be dependent; and</li> <li>o Claim the benefit of the IRS Jovem scheme and report the year of obtaining income for tax assessment purposes.</li> </ul>

<b>RULES IN FORCE</b>	
<b>AGE</b>	<b>REQUIREMENTS FOR THE APPLICATION OF THE SCHEME</b>
<b>BETWEEN 18 AND 26 YEARS OF AGE</b>	<ul style="list-style-type: none"> <li>o Earn Category A and/or B income;</li> <li>o Not be dependent;</li> <li>o Have completed a cycle of studies equal to or higher than secondary education; and</li> <li>o Prove the end of the study cycle.</li> </ul>
<b>UP TO 30 YEARS OF AGE</b>	<ul style="list-style-type: none"> <li>o Earn Category A and B income;</li> <li>o Not be dependent; and</li> <li>o Have completed a study cycle corresponding to a doctorate.</li> </ul>

The government proposes to extend the period during which a taxpayer can benefit from the IRS Jovem scheme - currently 5 years - to the first 10 years of income. In addition, the exemption will apply from the year in which the taxpayer chooses this tax option in his or her tax return and for the following 9 years. If the taxpayer does not earn any category A or B income, the scheme will not apply, but will be reinstated later for the remaining period, up to a total of 10 years of actual use of the exemption.

However, the 10-year period may not extend beyond the taxpayer’s 35th birthday.

<b>PERIOD OF APPLICATION OF THE EXEMPTION</b>	
<b>SB25 BILL</b>	In the first year in which the taxpayer opts for this scheme in his or her income tax return and in the following 9 years, without exceeding the age of 35.
<b>RULES IN FORCE</b>	In the first year of obtaining income after the completion of the study cycle and in the following four years.

The proposed law also provides for the exemption to be:

<b>SB25 BILL</b>		
<b>YEAR OF EXEMPTION</b>	<b>PERCENTAGE OF EXEMPTION</b>	<b>LIMIT (EUROS)<sup>1</sup></b>
<b>FIRST</b>	100%	22,009.30
<b>FROM THE SECOND TO THE FOURTH</b>	75%	22,009.30
<b>FROM THE FIFTH TO THE SEVENTH</b>	50%	22,009.30
<b>FROM THE EIGHTH TO THE TENTH</b>	25%	22,009.30

<b>RULES IN FORCE</b>		
<b>YEAR OF EXEMPTION</b>	<b>PERCENTAGE OF EXEMPTION</b>	<b>LIMIT (EUROS)<sup>1</sup></b>
<b>FIRST</b>	100%	20,370.40
<b>SECOND</b>	75%	15,277.80
<b>THIRD AND FOURTH</b>	50%	10,185.20
<b>FIFTH</b>	25%	5,092.60

<sup>1</sup> Limit determined considering the Social Support Indexing (“SSI”) for 2024, which is €509.26. The SSI value for 2025 is not yet known, but in the event of a change, the maximum exemption limit will change accordingly.

The SB25 Bill also removes from the scope of the IRS Jovem scheme the current restriction that limits the exemption to one use per taxpayer. However, this incentive is not available to those who:

- Benefit or have benefited from the non-habitual residents scheme;
- Benefit or have benefited from the a tax incentive for scientific research and innovation;
- Opt for taxation as a former resident;
- Do not have their tax situation in good order.

Finally, the SB25 Bill provides for transitional arrangements whereby the taxpayer will qualify for the year and percentage of exemption corresponding to the year following the number of years of income already earned, not taking into account years as a dependant.

**The Bill also removes from the scope of the IRS Jovem scheme the current restriction that limits the exemption to one use per taxpayer.**

For example:

Pedro starts working as an employee in 2022 and by the end of 2024, Pedro has already worked the equivalent of 3 years of earned income. Thus, in 2025, Pedro will be in his 4th year of earning income, which corresponds to the exemption rate of 75%.

### UPDATING OF THE PERSONAL INCOME TAX BANDS

The SB25 bill maintains the current general income tax rates, but updates the taxable income bands by approximately 4.6%:

TAXABLE INCOME (EUROS)		RATES (%)	
RULES IN FORCE	SB25 BILL	NORMAL	AVERAGE
Up to 7,703	Up to 8,059	13.00	13.000
From 7,703 to 11,623	From 8,059 to 12,160	16.50	14.180
From 11,623 to 16,472	From 12,160 to 17,233	22.00	16.482
From 16,472 to 21,321	From 17,233 to 22,306	25.00	18.419
From 21,321 to 27,146	From 22,306 to 28,400	32.00	21.334
From 27,146 to 39,791	From 28,400 to 41,629	35.50	25.835
From 39,791 to 43,000	From 41,629 to 44,987	43.50	27.154
From 43,000 to 80,000	From 44,987 to 83,696	45.00	35.408
Above 80,000	Above 83,696	48.00	-

### MEAL ALLOWANCES

The government is proposing to increase the non-taxable value of the meal allowance paid through meal vouchers to a daily value of €10.20. In other words, only the part exceeding the current legal limit of €6 will be taxed (instead of the current 60%).

### DEDUCTIONS FROM EMPLOYMENT INCOME AND PENSIONS

The government proposes (i) to increase the amount deductible from gross employment income (category A) and pensions (category H) to the equivalent of 8.54 times the SSI (Social Support Index); and (ii) to abolish the annual update of this amount at the SSI update rate.

Taking the 2024 SSI value of €509.26 as a reference, the deductible amount increases from €4,104 to €4,349.08.

### SUBSISTENCE LEVEL

It is proposed that the minimum subsistence level reference value will be the higher of €12,180 (increasing the current €11,480) and  $1.5 \times 14 \times \text{SSI}$  (€509.26 in 2024).

### CHANGES TO FINAL WITHHOLDING TAX RATES AND OVERTIME WITHHOLDING TAX

It is proposed to limit the exemption from the final withholding tax on overtime income of non-residents earned in Portugal to overtime income of up to 100 hours, instead of the current 50 hours.

The SB25 Bill also provides that the withholding rate applicable to overtime pay will be 50% of the rate applicable to the monthly salary for the month in which it is paid or made available, rather than 100% of the salary. The autonomous withholding rate of 50% applicable only from the 101st hour of work will also be abolished and this income will now be subject to this rate from the 1st hour of overtime work.

### AUTONOMOUS TAXATION OF DEDUCTIBLE CHARGES

The government proposes to apply the autonomous taxation of deductible costs to light vehicles with an acquisition value of less than €30,000 and to light vehicles with an acquisition value of €30,000 or more. This would update by €10,000 the acquisition cost limits currently taken into account for the application of autonomous taxation to costs incurred by taxpayers who have, or should have, organised accounts in the exercise of a business or professional activity.

### CHANGE OF THE WITHHOLDING TAX RATE APPLICABLE TO THE SELF-EMPLOYED

The SB25 Bill provides for a reduction from 25% to 23% of the withholding tax rate applicable to income from professional activities specifically provided for in Article 151 of the Personal Income Tax Code and Ministerial Order 1011/2001. This which includes the professions of architects, engineers, health professionals, lawyers, solicitors, teachers and veterinarians, among others.

### PAYMENTS ON ACCOUNT

A reduction of 11.5% is proposed in the amount of payments on account due by category B taxpayers, which will now correspond to 65% (instead of the current 76.5%) of the amount calculated on the basis of the formula established by law.



# Corporate Income Tax

## REDUCTION IN NOMINAL CORPORATE INCOME TAX RATES

The government proposes to reduce the corporate income tax rate by one percentage point, from the current 21% to 20%.

The same percentage reduction is proposed for: (i) small and medium-sized enterprises (“SMEs”) and small mid-cap companies whose main activity is commercial, industrial or agricultural: a 16% tax rate will be applied to the first €50,000 of taxable income, instead of the current 17%, with the remainder being subject to the standard rate; and (ii) non-commercial entities (such as foundations and associations), proposing to tax their total income at a rate of 20% instead of the current rate of 21%.

## REDUCTION OF AUTONOMOUS TAX RATES

It is proposed to reduce by half a percentage point the autonomous corporate tax rates applicable to expenditure incurred or borne by companies engaged in a commercial, industrial or agricultural activity relating to light vehicles, motorcycles or mopeds. There is also a proposal to increase the ranges of acquisition costs used to determine the applicable rates:

CURRENT RULES		PROPOSED RULES	
CURRENT ACQUISITION COST (€)	CURRENT RATE	PROPOSED ACQUISITION COST (€)	PROPOSED RATE
Below 27,500	8.5%	Below 37,500	8%
27,500 or more but below 35,000	25.5%	37,500 or more but below 45,000	25%
35,000 or more	32.5%	45,000 or more	32%

It is also proposed that the costs incurred by companies in providing “entertainment” to customers, suppliers and other persons or entities will no longer be subject to autonomous taxation.

Maintaining the strategy adopted in 2022 and 2023, it is proposed that in the 2025 tax period the ten percentage point increase in the autonomous tax rates will not apply in the case of a tax loss where:

- i) the taxpayer has made a taxable profit in one of the three previous tax periods and has complied with its reporting obligations in due time in the 2023 and 2024 tax periods; or
- ii) the realised tax losses correspond to the tax period in which the business started or to one of the two following periods.

**It is proposed that the costs incurred by companies in providing “entertainment” to customers, suppliers and other persons or entities will no longer be subject to autonomous taxation.**

## SOCIAL UTILITY EXPENDITURES – HEALTH OR SICKNESS INSURANCE CONTRACTS

The SB25 Bill introduces the possibility for companies to deduct 120% of expenses incurred on health or sickness insurance contracts that are granted under the social utility expenditure rules.

## EXTENSION OF THE EXTRAORDINARY SUPPORT SCHEME FOR AGRICULTURAL PRODUCTION COSTS

The SB25 Bill provides for the extension of the extraordinary support scheme for agricultural production costs, allowing for a 40% increase in expenses and losses incurred or borne in the context of agricultural production activities. Note that any increase exceeding the limit provided for in the calculation of the tax assessment result may be carried forward for the purposes of determining taxable profit for up to the next ten tax periods.

## Value Added Tax

### LEGISLATIVE AUTHORISATION | REDUCED VAT RATE FOR CONSTRUCTION OR REHABILITATION CONTRACTS FOR RESIDENTIAL PROPERTIES

A legislative authorisation is proposed for the government to amend Item 2.18 of List I annexed to the VAT Code, which currently provides for the application of the reduced VAT rate of 6% to construction or rehabilitation contracts for low-cost housing, controlled-cost housing, or affordable rental housing, in order to:

- i) establish that these contracts will be defined according to criteria set by the government members responsible for finance and housing; and
- ii) exclude from the reduced rate any services related to residential properties whose value exceeds the limit compatible with the government's social housing policies.

It is proposed the exclusion from the reduced rate any services related to residential properties whose value exceeds the limit compatible with the government's social housing policies.



## VAT EXEMPTION FOR AGRICULTURAL PRODUCTION

It is proposed to extend until 31 December 2025 the VAT exemption applicable to the supply of fertilisers, soil improvers, other animal feeds for cattle, poultry and other animals, and glass bottles when used in the context of agricultural production activities. The exemption also applies to the supply of all products intended for the feeding of pets when they are under the care of legally constituted animal welfare associations.

# Excise Duties (“IEC”)

## TAX ON PETROLEUM AND ENERGY PRODUCTS (“ISP”)

The SB25 Bill provides for the full taxation (at 100%) of certain products (fuel oil, gas, diesel, etc.) used in the production of electricity, electricity and heat (cogeneration) and town gas under ISP (Tax on Petroleum and Energy Products), as well as the CO<sub>2</sub> emission surcharge, thereby eliminating all partial exemptions.

**The Government plans to abolish the partial tax exemption for certain products used in the production of electricity, electricity and heat (cogeneration) and town gas.**

Natural gas (NC 2711) used for the production of electricity, electricity and heat (cogeneration) and town gas by entities whose main activity is these operations on the mainland will continue to be taxed at the current level in 2025.

As a transitional measure, the government proposes that in 2025 marked and coloured diesel may be used in vehicles operated by forest firefighting teams that are part of the Integrated Rural Fire Management System.

## TAX ON ALCOHOLIC AND NON-ALCOHOLIC BEVERAGES (“IABA”)

The government proposes that the IABA rates applicable to certain liqueurs, “crème de” products, and certain distilled spirits, provided they are made exclusively from *medronheiro* (strawberry tree) fruit, produced and distilled in specific municipalities, remain set at 25% of the standard rate until 31 December 2025.

## TOBACCO TAX

The SB25 Bill provides that the total minimum reference tax will be equal to the national average tax and abolishes the method of determining the weighted average tax based on the consumption of the Member States of the European Union.

The government also proposes a new threshold for the tax on cigars and cigarillos, stipulating that in the case of cigarillos, the tax cannot be lower than 50% of the minimum tax on cigarettes applicable to cigarettes sold at the weighted average price.



## Vehicle Tax (“ISV”)

### AMENDMENT TO THE ISV CODE

The government proposes to apply an intermediate rate of 25% to passenger cars registered in another Member State of the European Union between 1 January 2015 and 31 December 2020, equipped with plug-in hybrid engines, whose batteries can be recharged by connection to the public grid and which have a minimum electric-only range of 25 km, taking into account both engine capacity and environmental factors.

## Road Tax (“IUC”)

### IUC SURCHARGE

The government proposes to maintain the IUC surcharge on diesel vehicles.

## Stamp Duty

### EXCHANGE OF INFORMATION BETWEEN THE IRN, THE TREASURY AND PUBLIC DEBT MANAGEMENT AGENCY AND THE TAX AUTHORITY

The SB25 Bill provides for the exchange of information on the death of holders of public debt securities and certificates, as well as information on the fulfilment of tax obligations by the administrator of the estate and the beneficiary of a gratuitous transfer. These persons are required to report to the relevant tax office: (i) gifts, (ii) the death of the deceased, or (iii) any other act or contract involving the transfer of assets between the IRN, the Treasury and Public Debt Management Agency and the Tax Authority.

### MORTGAGE LOAN EXEMPTIONS

The government proposes to extend the Stamp Duty exemption for mortgage loans, up to the outstanding amount of the loan, in relation to:

- i) variations in the term of the loan which result in tax being payable, depending on the applicable interest rate differential;
- ii) extensions of the loan period; and
- iii) the conclusion of a new mortgage loan agreement with a view to refinancing the debt, in which case the exemption applies to the guarantees provided, even if the credit institution is changed or the rights and guarantees of the mortgage creditor are subrogated.



**FIXING OF MORTGAGE PAYMENTS**

The extension of the Stamp Duty exemption is also proposed for the events covered by item 17.1 of the General Stamp Duty Table, relating to the use of credit in the context of operations for the temporary fixing of payments and the capitalisation of deferred amounts in the value of the loan for the taxpayer’s own permanent residence.

# Municipal Property Transfer Tax (“IMT”)

**UPDATING OF THE IMT BANDS**

The SB25 Bill provides for the following changes to the IMT bands:

- a) Acquisition of urban properties or autonomous units in urban properties intended exclusively for use as the taxpayer’s own permanent residence:

CURRENTLY IN FORCE (€)	SB25 BILL (€)	PERCENTAGE RATES	
		MARGINAL	AVERAGE
UP TO 101,917	UP TO 104,261	0	0
ABOVE 101,917 UP TO 139,412	ABOVE 104,261 UP TO 142,618	2	0.5379
ABOVE 139,412 UP TO 190,086	ABOVE 142,618 UP TO 194,458	5	1.7274
ABOVE 190,086 UP TO 316,772	ABOVE 194,458 UP TO 324,058	7	3.8361
ABOVE 316,772 UP TO 633,453	ABOVE 324,058 UP TO 648,022	8	-
ABOVE 633,453 UP TO 1,102,920	ABOVE 648,022 UP TO 1,128,287	6 (single rate)	
ABOVE 1,102,920	ABOVE 1,128,287	7.5 (single rate)	

- b) Acquisition of urban properties or autonomous units in urban properties intended exclusively for use as the taxpayer’s own permanent residence and covered by the IMT Jovem scheme:

CURRENTLY IN FORCE (€)	SB25 BILL(€)	PERCENTAGE RATES	
		MARGINAL	AVERAGE
UP TO 316,772	UP TO 324,058	0	0
ABOVE 316,772 UP TO 633,453	ABOVE 324,058 UP TO 648,022	8	-
ABOVE 633,453 UP TO 1,102,920	ABOVE 648,022 UP TO 1,128,287	6 (single rate)	
ABOVE 1,102,920	ABOVE 1,128,287	7.5 (single rate)	

- c) Acquisition of urban properties or autonomous units in urban properties intended exclusively for housing:

CURRENTLY IN FORCE (€)	SB25 BILL(€)	PERCENTAGE RATES	
		MARGINAL	AVERAGE
UP TO 101,917	UP TO 104,261	1	1
ABOVE 101,917 UP TO 139,412	ABOVE 104,261 UP TO 142,618	2	1.2689
ABOVE 139,412 UP TO 190,086	ABOVE 142,618 UP TO 194,458	5	2.2636
ABOVE 190,086 UP TO 316,772	ABOVE 194,458 UP TO 324,058	7	4.1578
ABOVE 316,772 UP TO 607,528	ABOVE 324,058 UP TO 621,501	8	-
ABOVE 607,528 UP TO 1,102,920	ABOVE 621,501 UP TO 1,128,287	6 (single rate)	
ABOVE 1,102,920	ABOVE 1,128,287	7.5 (single rate)	

# Tax Benefits Statute

## CORPORATE INCOME TAX | TAX INCENTIVE FOR SALARY INCREASES

Under the SB25 Bill, employers will be able to deduct 200% (up from the current percentage of 150%) of the cost of salary increases for employees on open-ended contracts, up to a maximum annual amount per employee of 5 times the guaranteed minimum monthly wage (instead of 4 times), with the tax incentive for salary increases now applying if:

- i) an increase in the average annual basic salary per employee of at least 4.7% compared to the end of the previous year; and
- ii) an average increase in the annual basic salary of employees earning less than or equal to the company's average annual basic salary at the end of the previous year of at least 4.7%.

The government proposes to remove the rule that excludes taxpayers where there has been an increase in the pay band of employees compared to the previous year.

It is also proposed that only charges relating to employees covered by a collective agreement signed or updated less than three years ago should be taken into account.

## PERSONAL INCOME TAX | INCENTIVES TO CAPITALISE COMPANIES

It is proposed that the deduction for tax purposes of 20% of cash contributions made to a company (in which the taxpayer already has a holding) from (i) the gross amount of the profits distributed by that company or (ii) in the case of the sale of that holding, from the balance calculated between the capital gains and losses realised, should no longer be subject to requirements relating to the economic situation of the company.

The government also proposes that this mechanism should no longer apply to investments in companies subject to supervision by Banco de Portugal or the Insurance and Pension Funds Supervisory Authority, as well as to branches in Portugal of credit institutions, other financial institutions or insurance companies.

## CORPORATE INCOME TAX | TAX REGIME TO PROMOTE COMPANY CAPITALISATION

Under the SB25 Bill, all companies will be able to deduct an amount equal to the application of the 12-month Euribor rate plus 2 percentage points to the amount of net increases in eligible equity. Currently, only 1.5 percentage points are added to the Euribor rate, with the 2 percentage point increase reserved for companies that qualify as SMEs or small mid-caps.

The government also proposes to increase this deduction by 50% in 2025 (instead of the current 30%).

The government proposes an exemption from Personal Income Tax and an exclusion from Social Security contributions, up to a limit of 6% of the beneficiary's annual basic salary, on amounts paid by the employer for productivity, performance, profit-sharing and balance sheet bonuses.

## **PERSONAL INCOME TAX AND SOCIAL SECURITY | PRODUCTIVITY AND PERFORMANCE BONUSES, PROFIT SHARING AND BALANCE SHEET BONUSES**

The government proposes an exemption from Personal Income Tax and an exclusion from Social Security contributions, up to a limit of 6% of the beneficiary's annual basic salary, on amounts paid by the employer for productivity, performance, profit-sharing and balance sheet bonuses, provided that they are granted to employees or members of statutory bodies on a voluntary basis and are not of a recurring nature.

This exemption will only apply if the employer meets the conditions for the application of the salary increase tax incentive in 2025.

The withholding tax rate applicable to these amounts will be the same as that applied to the monthly salary for employed work done in the month in which the payment is made or made available.

## **EXTENSION OF TAX BENEFITS**

The SB25 Bill provides for the extension until 31 December 2025 of the tax benefits relating to (i) deductions regarding social impact bond partnerships; (ii) incentives for forestry activities; (iii) forest management entities and forest management units; and (iv) electro-solar or fully electric vessels.

# Tax Investment Code

No amendments are proposed under the SB25 Bill.

# Other tax provisions

## **NO UPDATE OF SURCHARGES TO BENEFIT THE AUDIOVISUAL SECTOR, OR SURCHARGES ON THE BANKING SECTOR, THE PHARMACEUTICAL INDUSTRY AND THE ENERGY SECTOR (CESE)**

The government proposes not to update (i) the surcharges to benefit the audiovisual sector; (ii) the surcharges on the banking sector, including the solidarity surcharge on the banking sector; (iii) the extraordinary surcharges on the pharmaceutical industry; (iv) the extraordinary surcharges on suppliers of medical devices to the National Health Service; and (v) the extraordinary surcharges on the energy sector.

## **EXEMPTION FROM THE OBLIGATION TO VALUE INVENTORIES**

The SB25 Bill proposes that taxpayers will be exempt from the obligation to value inventories for tax periods beginning on or after 1 January 2024. It also provides that those who are not required to keep a permanent inventory may be exempted from this obligation for tax periods beginning on or after 1 January 2025.

## **SUBMISSION OF SAF-T (PT) FILES**

In line with previous years, the government proposes that the submission of the SAF-T (PT) file for accounting purposes only apply to periods from 2026 onwards (to be submitted in 2027 or in subsequent periods).

## **ACCEPTANCE OF PDF INVOICES AS ELECTRONIC INVOICES**

It is proposed that invoices in PDF format continue to be considered as electronic invoices for tax purposes until 31 December 2025.

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# About the Tax team

→ What we do

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