

## Tax Alert – 2022 State Budget Law

Know what to expect from the main tax changes introduced by the 2022 State Budget Law, with emphasis on the change in the Personal Income Tax brackets from 7 to 9, the restructuring of the deductions for families with more than two dependents, the widening of the Return Programme, the introduction of the Recovery Tax Incentive for companies, the end of the Special Payments on Account, among other measures.

### 1. Personal Income Tax - PIT (IRS)

#### PIT brackets

The PIT brackets have been split, giving place to nine brackets instead of the previous seven:

Taxable Income (€)	Marginal Rate (%)
Up to 7,116	14,50
From over 7,116 to 10,736	23
From over 10,736 to 15,216	26,50
From over 15,216 to 19,696	28,50
From over 19,696 to 25,076	35,00
From over 25,076 to 36,757	37,00
From over 36,757 to 48,033	43,50
From over 48,033 to 75,009	45,00
Over 75,009	48,00

#### Subsistence level

The Subsistence level, i.e. the amount from which you start paying Personal Income Tax, will increase by around €200.00 compared with 2021.

On the computation of the PIT concerning income earned in 2022 the previous rules will apply. This will correspond to the computation rules foreseen in the legislation (1.5 \* 14 \* IAS) or any other rules enacted in the future.

## Deductions to taxable income

- Families with two or more underage children:

The legislation in force foresees a personal deduction per dependent amounting to EUR 600, as well as an additional deduction of EUR 126 for dependents aged up to three years (with reference to 31 December of the tax year concerned). Said additional deduction amounts to EUR 300 in respect of the second and following dependents, regardless of the age of the first dependent.

It is now foreseen an additional deduction of EUR 150 for the second and following dependents aged between four and six years old, regardless of the age of the first dependent.

- Changes to limits on deductions:

A maximum deduction limit of €1,000 is now applicable for taxpayers with a taxable income of more than €80,000, whereas previously the same limit was only applicable to taxpayers with a taxable income of more than €80,882.

## Return Programme

There is an extension of the tax regime applicable to former residents that returned to Portugal in 2019 and 2020. The 50% relief from taxation on employment and self-employment income applies to taxpayers that become residents in Portugal in 2021, 2022 and 2023.

The relief requires that the taxpayers were resident in the Portuguese territory respectively prior to 31 December 2017, 2018, and 2019. The remaining requirements remain unchanged. Namely the taxpayers should not have been resident in the Portuguese territory in the 3 prior years and must have their tax situation regularized.

## Youth PIT (IRS Jovem)

The period to benefit from the Youth PIT (IRS Jovem) has been increased from three to five years and is now also available to self-employed workers. The IRS exemption is now:

- > 30% (years 1 and 2);
- > 20% (years 3 and 4);
- > 10% (year 5).

The State Budget for 2022 also removes the maximum income limit for the application of this benefit and extends it to 28 years of age in the case of young people doing doctorate studies.

## Mandatory aggregation of Capital gains on securities

The positive balance between capital gains and capital losses arising from the transfer for consideration of shares and other securities is mandatorily aggregated, when held for less than one year, and the taxable

income of the taxpayer including the balance of the capital gains and capital losses amounts to or exceeds €75,009.

With the mandatory aggregation, this income will be taxed at 48%.

This measure will only apply to income obtained from 1 January 2023 onwards.

### **Start Ups and Stock Options**

The Government is authorised to define a special tax regime for the treatment of Stock Options by establishing a maximum limit on the application of the regime to gains not exceeding €100,000.00.

## **2. Corporate Income Tax – CIT (IRC)**

### **Non-deductible expenses**

Charges shown in documents issued by taxpayers who have not submitted a declaration of commencement of activity will not be deductible from taxable income.

### **Special payments on account**

Special payments on account will be extinguished with effects from 1 January 2022.

### **Autonomous Taxation**

Autonomous taxation will no longer be increased by 10 percentage points, in the case of losses, provided that they are verified by SMEs that have losses in the first year of activity, as well as in the two following years.

## **3. VAT**

### **Extension of deadlines for submission of periodic VAT returns and respective payment**

VAT returns may now be submitted until the 10th day of the 2nd month following the period to which they relate.

The related payment is then due until the 25th day of the 2nd month after the respective period.

## **4. Tax Benefits**

### **Issuing of licenses for the Madeira Free Trade Zone**

The income of entities licensed to operate in the Madeira Free Trade Zone from 1 January 2015 until 31 December 2023 are subject to corporate income tax at the rate of 5%, a benefit that may be maintained until the end of 2027.

## **CIT – Tax Incentive to Recovery (“Incentivo Fiscal à Recuperação” or “IFR”)**

A CIT credit will be introduced in benefit of CIT taxpayers incurring investment expenses from 1 July to 31 December 2022.

There is an overall cap of EUR 5 million for the eligible expenses

## **Contractual tax benefits & Tax Regime for Investment Support (“Regime Fiscal de Apoio ao Investimento” or “RFAI”)**

Contractual tax benefits and RFAI are extended until 31<sup>st</sup> of December of 2027.

## **5. Municipal Tax on Real Estate Transfers (IMT)**

### **IMT on shareholders’ entries consisting of real estate**

IMT applies in case of shareholders’ entries consisting of real estate with the nature of supplementary capital entries.

Currently the law only foresees that IMT applies in case of shareholders’ entries consisting of real estate as a contribution to the capital of the entities concerned.

### **IMT on the allocation of real estate to shareholders**

IMT shall be levied in case of allocation of real estate to the shareholders because of a capital reduction, a repayment of supplementary capital entries, as well as in case of fulfilment with other obligations assumed by the companies.

Currently, IMT is levied only in the case of allocation of real estate to the shareholders because of a liquidation of the company.

### **IMT on the allocation of real estate to unitholders of investment funds**

IMT shall be levied in the case of allocation of real estate to unitholders of private issued closed-end investment funds resulting from a redemption of units or a reduction of capital of said funds.

Currently, IMT is levied only in the case of allocation of real estate resulting from a liquidation of private issued closed-end investment funds.

### **IMT rate on the transfer of residential urban property**

There is an adjustment by 1% of the brackets of the IMT rate applicable on the transfer of urban property, or its autonomous units, exclusively for residential use.

This amendment implies that IMT is due only in case the taxable basis exceeds EUR 93,331 (currently, EUR 92,407), in respect of residential urban property for permanent abode.

### **IMT rate on the transfer of equivalent rights to the ownership right**

IMT shall be levied on the total value of the real estate in proportion to the right transferred, in the case of transfer of equivalent rights to the ownership right or of the single ownership right excluding equivalent rights.

Currently, this rule applies only in the case of not all the ownership rights being transferred.

### **Exemption from IMT on the first transfer or rehabilitated real estate**

The IMT exemption attributed in the first transfer, after the intervention of rehabilitation of urban buildings or autonomous fractions, to be used as a permanent residence for rental, becomes void if the building or property is used for a different purpose within 6 months counting from the transfer or if it is not used as a permanent residence within 6 months counting from the transfer.

This exemption will also be without effect if the aforementioned buildings are not subject to a rental agreement for permanent residence within a period of one year from the date of transfer.

### **6. Tax on Oil Products (ISP)**

The Government will lower the ISP so that, with this decrease, the price of fuel will be equivalent to what it would be with a VAT of 13%.

The increase in carbon taxes on fuel will be suspended until the end of the year so as not to further increase the bill paid by taxpayers in the supply of their vehicles

### **7. Excise Taxes (IECS) and Vehicle Tax (ISV)**

In 2022, excise duties, such as tobacco tax and tax on alcohol and alcoholic beverages go up by 1%.

A special regime of the Tax on Vehicles (ISV) registered in Ukraine owned by beneficiaries of the temporary protection regime was also created.

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