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State Budget Law for 2025 | Key Fiscal Measures

This document aims to provide a summary of the main fiscal issues that will impact the lives of companies and individuals starting January 1, 2025, the date when Law No. 45-A/2024 of December 31, approving the State Budget for 2025 (OE 2025), came into effect.

IRS
PERSONAL INCOME TAX

- **IRS exemption for productivity bonuses, performance bonuses, profit sharing, and year-end bonuses**

  - ✓ IRS Exemption: Up to a limit of 6% of the worker's annual base salary or statutory body members' annual base salary in 2025, voluntarily and irregularly paid by the employer, for amounts granted as productivity bonuses, performance bonuses, profit sharing, and year-end bonuses.
  - ✓ This exemption is only applicable if, in 2025, the employer implements a salary increase eligible under Article 19-B of the EBF (base salary = Article 258 of the Labor Code).
  - ✓ The income statement issued annually by the paying employer, for amounts paid in 2025, must expressly mention compliance with the salary increase condition as provided in Article 19-B of the EBF.
  - ✓ The withholding tax rate applicable to these amounts corresponds to the rate applied to monthly dependent work remuneration in the month the amounts are paid or made available.
  - ✓ Amounts meeting the specified conditions are excluded from the contribution base for the Contributory Regimes of the Social Security Welfare System.

- **IRS Jovem/ Youth IRS**

  - ✓ The IRS Jovem/Youth IRS tax regime has been structurally altered.
  - ✓ The partial IRS exemption, granted to income from categories A (employment) and B (self-employment), applies to taxpayers who:
    - o Are not considered dependents;
    - o Are up to 35 years old (previously between 18 and 26 years);
    - o Are within the first 10 years (previously 5 years) of earning income;
    - o **Are not required to have completed any specific level of education.**
  - ✓ The exemption applies in the first year the taxpayer opts for the regime and in the subsequent nine years of earning income, provided the maximum age limit is not exceeded.
  - ✓ For this purpose, years in which no income from categories A or B is earned do not count towards the 10-year limit. In such cases, the timeline is paused and resumes for the remaining eligible years, up to the age of 35.
  - ✓ The exemption applied each year is capped at 55 times the IAS (for 2025, €28,737.50) and is distributed as follows:
    - o 100% of income in the 1st year of earning income;
    - o 75% from the 2nd to the 4th year of earning income;
    - o 50% from the 5th to the 7th year of earning income;
    - o 25% from the 8th to the 10th year of earning income.

  - ✓ Taxpayers who cannot benefit from the regime:
    - o Those who currently benefit or have previously benefited from the non-habitual resident tax regime;
    - o B Those who currently benefit or have previously benefited from the tax incentive for scientific research and innovation provided for in Article 58-A of the EBF;

- Those who have opted for taxation under Article 12-A of the IRS Code (Programa Regressar);
- Those who do not have their tax situation regularized.

- ✓ A transitional regime has been established whereby taxpayers qualify for this exemption in the year following the number of years of earning income from categories A and B that have already elapsed, excluding, for this purpose, years in which they were considered dependents.
- ✓ **Important:** The law requires employees to inform their employer of their intention to be taxed under this regime and to specify the first year in which they began earning income from category A or B.

We draw attention to two relevant factors::

i. The fact that the benefit is calculated from the first year of earning income, rather than the year following the completion of an educational cycle, may alone affect the percentage of income exempt from taxation;

ii. Accordingly, employers may need to know whether there were years without income between the year income was first earned and 2025 in order to correctly calculate withholding tax.

Meal Allowance

- ✓ The increase of 60%, applicable to the meal allowance when provided via meal vouchers, has been raised to 70%.
- ✓ Consequently, the meal allowance provided in this manner is now subject to taxation on the portion exceeding €10.20 (previously €9.60), using the current legal limit of €6.00, as defined for public administration, as the reference.

Specific Deduction for Categories A and H

The specific deduction applicable to income from these categories will now correspond to **8.54 times the value of the IAS** (previously €4,104.00, increasing to €4,462.15, according to the IAS value for 2025).

Tax Rates and Brackets

The taxable income brackets have been adjusted by 4.62%, but there are no changes to the rates.

For 2025, the general tax rate table is as follows:

Year 2025		
Collectable Income (€)	Normal Rate (%)	Average Rate (%)
Up to 8.059€	13,0%	13,0%
From 8.059€ to 12.160€	16,5%	14,18%
From 12.160€ to 17.233€	22,0%	16,482%
From 17.233€ to 22.306€	25,0%	18,419%
From 22.306€ to 28.400€	32,0%	21,334%
From 28.400€ to 41.629€	35,5%	25,835%
From 41.629€ to 44.987€	43,5%	27,154%
From 44.987€ to 83.696€	45,0%	35,408%
Over 83.696€	48,0%	

Account payments

The amount of advance payments due from category B income earners has been reduced. It will now correspond to 65% of the value derived from the applicable formula (previously 76.5%)

Withholding Tax – Category A | Overtime work

- ✓ For overtime pay under Category A, the withholding tax rate to be applied is now 50% of the rate applicable to the monthly dependent work remuneration for the month in which the payment is made or made available. (Previously, the reduction applied only starting from the 101st hour of overtime worked).
- ✓ The exemption from withholding tax at the standard rate applicable to income from overtime work obtained in Portuguese territory by non-resident taxpayers now has a limit of

supplementary income up to 100 hours (previously 50 hours).

- **Withholding Tax – Independent Workers**

The withholding tax applicable to income derived from professional activities, specifically set out in the table referred to in Article 151, is reduced **from 25% to 23%.**

- **Autonomous Taxation | Category B**

  - ✓ The threshold from which autonomous taxation on expenses related to light passenger or mixed vehicles increases from 10% to 20% and is updated from €20,000 to €30,000.
  - ✓ Expenses related to shows are no longer considered part of representation expenses for the purposes of applying autonomous taxation rates.

- **Tax Incentive for Business Recapitalization**

  - ✓ The incentive for individual investment in business capitalization is strengthened through the possibility of deducting 20% of cash capital contributions from the gross amount of profits distributed by that company or, in the case of the sale of this investment, from the balance between capital gains and losses.
  - ✓ This deduction is no longer conditioned on specific requirements related to the company's economic situation, applying to most businesses.
  - ✓ However, it is established that this will not apply to contributions to entities under the supervision of the Bank of Portugal or the Insurance and Pension Funds Supervisory Authority, branches in Portugal of credit institutions, other financial institutions, or insurance companies.

SOCIAL SECURITY

- **Extraordinary Pension Update**

  - ✓ In 2025, the Government will carry out an extraordinary update of pensions, effective from January 1, 2025.
  - ✓ The extraordinary pension update will be done by applying an increase of 1.25 percentage points to the regular annual pension update rate, carried out in January 2025.
  - ✓ The update applies to disability, old age, and survivors' pensions awarded by social security, as well as retirement, pension, and survivors' pensions from the convergent social protection system, awarded by CGA, I.P., with amounts up to three times the value of the social support index.

- **Extraordinary Pension Supplement**

In 2025, the Government will pay an extraordinary pension supplement based on the evolution of budget execution and the corresponding revenue and expenditure trends.

- **Information Exchange Between the Tax Authority and Social Security**

The obligations for information exchange between the Tax Authority (AT) and Social Security remain in place, although they have not yet resulted in significant inspection processes or corrections:

  - ✓ Social Security and CGA, I.P., send to the Tax Authority (AT), by the end of February each year, the amounts of all social benefits paid, including pensions, scholarships, training grants, housing allowances, and other public housing support, by beneficiary, for the previous year, when the data is held by the social security information system or CGA, I.P., through an official form.
  - ✓ The AT sends to Social Security and CGA, I.P., through an official form, the income values presented in Annexes A, B, C, D, J, and SS to the

personal income tax (IRS) return, for the previous year, for each taxpayer covered by the social security contribution system or the convergent social protection system, within 60 days after the deadline for submitting the said return, and whenever there is any change, electronically, by the end of the second month following that change.

- ✓ The AT sends to Social Security the information and values of income from the sale of goods and products and the provision of services relevant for determining the contribution obligation of contracting entities, as set out in the Code of Contribution Regimes of the Social Security Pension System, approved in annex to Law No. 110/2009, of September 16.

- **RMMG e IAS**

- ✓ Minimum Monthly Guaranteed Remuneration (RMMG) for 2025 – €870 (€820 in 2024);
- ✓ Social Support Index (IAS) for 2025 – €522.50 (€509.26 in 2024).

I R C
CORPORATE INCOME TAX

- **Expenses with Health or Sickness Insurance Contracts**

- ✓ Expenses with health or sickness insurance contracts, eligible under the conditions set out in Article 43 of the Corporate Income Tax Code (CIRC), will be increased by 120% for tax purposes.

- **Tax Rates**

- ✓ The general IRC rate is increased from 20% to 21%, while the rate applicable to small and medium-sized enterprises, as well as small and medium capitalization companies, is reduced from 17% to 16%.
- ✓ These changes apply only to financial years starting on or after January 1, and thus do not apply to the current fiscal year ending on December 31, 2024, for taxpayers whose financial year does not align with the calendar year.
- ✓ The autonomous tax rates applicable to expenses related to vehicles equipped with thermal engines are reduced for all brackets, with the new rates set at 8.0%, 25.0%, and 32.0% (in 2024, the rates were 8.5%, 25.5%, and 32.5%, respectively).
- ✓ Additionally, the upper limits of the first two autonomous tax brackets for vehicles are expanded, with the first bracket now covering vehicles up to EUR 37.5k (EUR 27.5k in 2024) and the second up to EUR 45k (EUR 32.5k in 2024).
- ✓ Regarding autonomous taxation, expenses related to shows are no longer covered by the autonomous tax applicable to representation expenses.

- **Madeira Free Trade Zone**

The licensing period for new entities in the Madeira Free Trade Zone is extended until December 31, 2026, while the deadline for applying benefits remains December 31, 2028.

- **Wage Enhancement Incentive**

This benefit, despite its recent introduction, is once again subject to changes, namely:

- ✓ The minimum percentage for wage increases in 2025 is set at 4.7% (it was 5.0% in 2024).
- ✓ The increase in expenses is doubled, rising to 200% of the recorded amounts.
- ✓ The maximum annual amount of deductible expenses also increases, now up to 5 times the RMMG (it was 4 times in 2024).
- ✓ The requirement to avoid widening the salary range as a deterrent to applying the benefit is no longer applicable.
- ✓ In its place, a dual condition is created:
  - o The increase in the average annual base salary in the company must be at least 4.7%; and

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- the increases in the annual base salary of employees earning less than or equal to the company's average annual base salary at the end of the previous year must also be at least 4.7%%.

- ✓ The scope of expenses eligible for the increase is reduced, consisting only of the amounts paid by the employer for base salaries (plus the corresponding social security contributions), no longer covering all fixed remuneration.
- ✓ To clarify certain interpretative doubts, the concepts of "expenses" and "Collective Labor Regulation Instrument" are now aligned with the definitions set out in the Labor Code.

- **Incentive for Business Capitalization**

For large companies, a 2% spread over the 12-month Euribor rate is set as the benchmark for calculating this benefit, eliminating any difference in the percentage increase for net increases in eligible equity between large companies and small and medium-sized enterprises.

The deduction for 2025 is subject to a 50% increase, limited to the maximum absolute amounts set for this benefit.

VAT
VALUE ADDED TAX

In terms of VAT, the following changes are highlighted from the State Budget Law (OE25):

- **Exclusions from the Right to Deduction | Article 21 CIVA**

For expenses where the tax is excluded from the right to deduction, specifically those related to the acquisition, manufacturing, importation, leasing, use, transformation, and repair of passenger vehicles, recreational boats, helicopters, airplanes, motorcycles, and motorbikes, it is now explicitly stated in the law that bicycles, with or without a motor, do not fall into any of these categories of vehicles, as its interpretative nature is altered.

- **Tax Rates**

Regarding changes in VAT rates, the 2025 State Budget Law (OE25) introduced the following:

- ✓ Expansion of the application of the reduced VAT rate (Item 2.10 of Annex I to the CIVA) to tools and other equipment exclusively or primarily intended for rescue and lifesaving operations, when acquired by the Regional Civil Protection Service, IP-RAM, the Regional Civil Protection and Fire Service of the Azores, municipalities, and intermunicipal entities.
- ✓ Extension of the application of the reduced VAT rate (Item 2.32 of Annex I to the CIVA) to entries for bullfighting shows and exhibitions.
- ✓ Addition to Annex I of the CIVA (reduced rate) of food products intended for infants and young children, including follow-on formulas, as well as foods for special medical purposes and total diet replacements for weight control, in accordance with Regulation (EU) No. 609/2013 of the European Parliament and the Council of June 12, 2013.

IMT
MUNICIPAL TAX ON THE TRANSFER OF REAL ESTATE

- **Update of tax brackets**

The tax brackets for properties intended for housing are updated by 4.3%, while the tax rates remain unchanged.

OTHER MEASURES / CHANGES

- **Tax Obligations | Transitional Provisions**

- ✓ Exemption from the obligation to value inventories in compliance with the communication requirement under Decree-Law No. 198/2012: a) For all taxpayers, for the taxation period starting on or after January 1, 2024; b) For taxpayers not required to maintain a permanent inventory, for the taxation period starting on or after January 1, 2025
- ✓ Submission of the SAF-T (PT) file related to accounting applies to periods starting in 2026 and beyond, to be submitted in 2027 or later
- ✓ Until December 31, 2025, invoices in PDF format will be accepted and considered electronic invoices for all purposes under tax legislation
- ✓ The provisions of paragraph 3 of Article 25 of the General Waste Management Regime, approved as an annex to Decree-Law No. 102-D/2020 of December 10, do not prevent the printing of invoices and other fiscally relevant documents.

- **Extraordinary Contributions**

The following contributions will remain in effect in 2025:

- ✓ Audiovisual Contribution: The monthly amounts stipulated in paragraphs 1 and 2 of Article 4 of Law No. 30/2003 of August 22, which establishes the funding model for public radio and television services, will not be updated.
- ✓ Contribution on the banking sector approved in 2010.
- ✓ Solidarity surcharge on the banking sector approved in 2020
- ✓ Extraordinary contribution on the pharmaceutical industry approved in 2014
- ✓ Extraordinary contribution on suppliers of medical devices to the National Health Service approved in 2020
- ✓ **Extraordinary contribution on the energy sector approved in 2013** (all references to the year 2015 are considered to refer to the year 2025, except for those in paragraph 1 of the annex referred to in paragraphs 6 and 7 of Article 3 of the regime; and the reference to the year 2017 in paragraph 4 of Article 7 of the regime is considered to refer to the year 2025).

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