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State Budget

Highlights

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State Budget Law Proposal for 2025

The Portuguese State Budget Law Proposal for 2025, the first of the Democratic Alliance Government, signals a change in fiscal policy compared to the previous State Budgets approved during the previous legislature of the Socialist Party Government.

The proposal prioritises corporate taxation, which will also play an instrumental role in income policies.

The recovery of wages and purchasing power seems to be moving from a focus on personal income tax (PIT), and will, in the medium term, be driven by more and larger tax benefits aimed at improving economic growth and productivity in companies.

In this regard, a set of tax benefits for investment, innovation, and business capitalization are being created or extended. Some of these were defined through social dialogue and were already part of the three-party income agreement signed in September, while others were part of the "Accelerate the Economy Programme" presented last July.

These benefits also extend to personal income tax (PIT) and Social Security benefits when associated to company productivity.

Regarding the corporate tax, it was confirmed the expected one percentage point reduction in the general corporate income tax (CIT) rate, bringing it down to 20%. Although lower than what was previously announced by the Government, this reduction is a positive sign for attracting more foreign investment, which is closely related to strengthening the country's international tax competitiveness.

Some measures from the "Accelerate the Economy Programme", such as the reduction of the participation exemption from 10% to 5%, were left out, but it is anticipated that they may be proposed separately later 2025.

Except for income taxes, in terms of tax changes, this is one of the leanest Budget Proposals in recent years. It is limited to updating brackets and rates in most indirect taxes and extending special contributions, which will thus be carried over into 2025.

For families, the Proposal cannot be understood in isolation from the mid-term review of personal income tax brackets, which was approved by the Portuguese Parliament earlier this year. The proposed annual updating of brackets will apply to the revised brackets, leading to additional tax relief for families in 2025.

Finally, the Youth PIT Regime is confirmed, with the Government abandoning the autonomous table model for taxpayers up to 35 years old, but extending the scope, coverage, and duration of the benefit introduced with the State Budget Law for 2024.

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Companies

The Portuguese State Budget Proposal for 2025 includes a series of measures aimed at strengthening the role of companies in economic recovery and restoring the purchasing power of families. The new initiatives reflect a clear commitment to supporting small and medium-sized enterprises (SMEs) and promoting favourable conditions for investment and sustained growth.

Get to know the main highlights that could directly impact your company and/or your investment decision:

1. Corporate Income Tax (CIT) Reduction

The Government proposes reducing the corporate income tax rate from 21% to 20%, and for SMEs, from 17% to 16% on the first €50,000 of taxable income. This reduction is part of the Government's goal of progressively reducing the general CIT rate.

2. Tax incentive for wage increases

In implementation of the Three-party Agreement on Improving Income, Wages and Competitiveness 2025-2028 concluded between the Government and the Social Partners, changes to this incentive are proposed. The costs related to salary increases will be increased by 200% (currently 150%):
a) The average annual basic salary per employee increases by at least 4.7% compared to the end of the previous year; and
b) The average annual basic salary for workers earning an amount equal to or less than the company's average annual basic salary at the end of the previous year is at least 4.7%.

3. Tax Incentive for company recapitalisation

It is proposed to strengthen the incentive for individual investment in company capitalisation. These individuals will now be able to deduct 20% of capital contributions in cash to a company in which they hold a shareholding or, in the case of the sale of that shareholding, the balance calculated between the capital gains and losses realized. This incentive is no longer conditional on the company having lost half of its capital, making it applicable to a broader range of companies (with the exception of entities in the financial and insurance sectors).

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4. Tax regime to company capitalisation incentives

This regime will now be calculated by applying the average 12-month Euribor rate plus a spread of 2 p.p. (currently 1.5 p.p.). It will apply to all companies and not just Small Mid Cap companies. It is also planned that, in 2025, the incentive rate will be increased by 50%, instead of 30%, within certain limits.
In practice, this measure, combined with the previous one, aims to encourage the capitalisation of companies without relying on external financing.

5. Social utility initiatives

It is proposed a 20% increase for expenses related to health or sickness insurance for employees, when these are considered social utility expenditures. This measure is designed with a clear impact not only on the employer but also on the covered employees.

6. Autonomous taxation rates

It is proposed a general reduction of 0.5% for autonomous taxation rates on expenses related to light passenger vehicles, light goods vehicles, motorcycles, or mopeds, as well as an increase in the relevant limits for applying the different brackets, as follows:

- 8% (currently 8.5%) for vehicles with an acquisition cost under €37,500 (currently €27,500).
- 25% (currently 25.5%) in the case of vehicles with an acquisition cost between €37,500 (currently €27,500) and under €45,000 (currently €35,000).
- 32% (currently 32.5%) for vehicles with an acquisition cost equal to or exceeding €45,000 (currently €35,000).

Moreover, expenses incurred with entertainment provided to clients, suppliers, or other entities, whether in Portugal or abroad, will no longer be classified as representation expenses for the purposes of autonomous taxation at the rate of 10%.

7. Legislative authorisation – Reduced VAT rate for construction or rehabilitation work on residential properties

The Government is authorised, during the year of 2025, to amend item 2.18 of List I annexed to the VAT Code to:

- Stipulate that these construction or renovation contracts follow criteria that will be established; and
- Exclude from this benefit services related to housing properties whose value exceeds the limit compatible with the Government's social housing policies.

Families

The State Budget for 2025 presents a set of strategic measures aimed at recovering families' purchasing power, with a focus on restoring incomes. These initiatives seek to mitigate recent economic impacts, promoting greater financial stability, improving the population's living conditions, and boosting sustainable economic growth by strengthening domestic consumption.
Discover the main highlights that could have a direct impact on your family:

1. Meal allowance

It is proposed that the amount of the meal allowance, when paid through meal vouchers, will only be taxable on the part that goes beyond 70% of the established legal limit (currently 60%).

2. Youth PIT Regime

It is proposed that income from categories A and B earned by a person up to 35 years old, who is not considered a dependent, should be partially exempt from personal income tax for the first 10 years of earning the income.
The exemption is limited to 55 times the value of the IAS (currently €28,009.03) and is applied as follows:

- 100% of the income earned in the first year.
- 75% of the income earned from the 2nd to the 4th year.
- 50% of the income earned from the 5th to the 7th year; and
- 25% of the income earned from the 8th to the 10th year.

This regime will not apply to young people who:

- Have benefited or are benefiting from the Non-Habitual Resident (NHR).
- Have benefited or are benefiting from the tax incentive for scientific research and innovation provided for in Article 58-A of the Tax Benefits Code (EBF).
- Have opted for taxation under the tax regime applicable to ex-residents.
- Do not have their tax situation regularised.

3. Specific deductions from income for Employment and Pension Income

It is proposed that the specific deduction applicable to income from dependent work and pensions be set at 8.54 times the value of the IAS - Social Support Index (from €4,104 to €4,349.08).

4. Updating progressive personal income tax rates
It is proposed to update the personal income tax brackets by 4.62%.

5. Updating the Subsistence level
It is proposed to update the reference value of the minimum subsistence level to the higher of the following values:
- €12,180 (annual National Minimum Wage for 2025); or
- 1.5 the annual value of the IAS.

With this update, the National Minimum Wage remains exempt from PIT.

6. Reduction of the withholding tax rate on income from professional activities specifically provided for in article 151 of the PIT Code
It is proposed that the withholding tax rate on income from professional activities, as specified in the table referred to in Article 151 of the PIT Code, should be reduced from 25% to 23%).

7. Charges for representation expenses and the purchase of passenger or mixed vehicles
For self-employed workers with organised accounting, it is proposed to increase the cost of purchasing light passenger or mixed vehicles from €20,000 to €30,000 for the purposes of autonomous taxation. The applicable rate will be 10% or 20%, depending on whether the cost is less than or equal to or greater than this amount, respectively. It is also proposed that the cost of shows given, in Portugal or abroad, to clients or suppliers will no longer be considered entertainment expenses and will therefore no longer be subject to autonomous taxation.

8. Productivity bonuses, performance bonuses, profit sharing and balance sheet bonuses
It is proposed that productivity bonuses, performance bonuses, profit-sharing bonuses and balance-sheet bonuses paid to employees or members of statutory bodies by the employer, on a voluntary and non-regular basis, should be exempt from personal income tax up to a limit of 6% of the employee's annual basic salary.

9. Change to the amount for IMT (Real Estate Transfer Tax):
(please check updated tables in the State Budget Law Proposal 2025, starting from page 113, for details on the changes to the IMT values).

Extra measures SB Law Proposal

In addition to the State Budget Proposal for 2025, the new Government has been announcing measures that should be approved in 2025, showing a clear sign of valuing the role of companies, promoting investment and increasing the purchasing power of families.

These measures are the result of the "Accelerating the Economy Programme" and the "Three-party Agreement on Improving Income, Wages and Competitiveness".

Key highlights include:

1. A gradual reduction of the corporate income tax (CIT) by 2% per year, down to 15% by 2027.
2. For SMEs and Small Mid Cap companies, this reduction will be accelerated, lowering the CIT rate from 17% to 12.5% by 2026 (applied to the first €50,000 of taxable income).
3. Implementation of a harmonised minimum taxation mechanism of 15% for multinational and large national groups.
4. Flexibility in the VAT cash accounting scheme, expanding eligibility to companies with turnover up to €2 million and the creation of the concept of VAT groups.
5. Expansion of the participation exemption regime by reducing the minimum shareholding requirement from 10% to 5% (for one year).
6. Increased deductibility of financing costs incurred in merger operations.
7. Expansion of the operations covered by the goodwill tax deductibility regime.
8. Broadening the scope of the individuals and activities eligible under the new regime for attracting talent from abroad (which replaced the Non-Habitual Resident in 2024).

As for the Income Agreement, the following measures stand out:

1. Simplifying the system for reporting and deducting tax losses carried forward from previous financial years;
2. Selective reduction of corporate income tax (CIT) for companies that invest in Research and Development (R&D), strengthening the System of Tax Incentives for Business Research and Development (SIFIDE II) with a focus on direct investment in innovation.

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Thinking about tomorrow? Let's talk today.

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