

## ***Tax flash***

# Report on Budgetary Strategy for the period 2011-2015

**1 September 2011**

### Main tax measures

The Portuguese Government has announced yesterday, 31 August 2011, the **Report on Budgetary Strategy** for the period 2011-2015.

This document provides an outline of the medium-term state budget consolidation strategy for the Portuguese economy, including a scenario of the public finance for the next four years, in accordance with the objectives stated in the Program of Economic and Financial Assistance ("PAEF - Programa de Assistência Económica e Financeira") agreed with the European Commission (EC), the International Monetary Fund (IMF) and the European Central Bank (ECB).

The Government's strategy includes a set of tax measures that will be implemented with the next State Budget, entering into force on 1 January 2012.

The envisaged tax changes are focused on four main lines: (i) the broadening of the taxable basis, (ii) the enforcement of the fight against fraud and tax evasion, (iii) the restructuring of the tax administration and (iv) the reform of the tax system through the simplification of taxes on income.

### i) Broadening the taxable basis

As this is an essential element for the implementation of the Portuguese budgetary consolidation strategy, the proposed measures go beyond the broadening of the taxable basis, as they also provide for a temporary increase of personal and corporate income taxes, through the creation on new tax rates. The proposed measures include:

#### *Corporate Income Tax (CIT)*

- Creation of an additional solidarity tax through the temporary increase of the State Surtax from 2.5% to 3%, applicable to taxable income exceeding EUR 1,500,000 (currently, 2,000,000) - details disclosed by the Minister of Finance during the press conference;
- Elimination of reduced CIT rates, elimination of tax exemptions and limitation of tax benefits (measures which have already been previously announced).

*Personal Income Tax (PIT)*

- Creation of an additional solidarity tax rate of 2.5% applicable to the taxable income exceeding EUR 153,300 (i.e., applicable only to individuals or families subject to the maximum PIT bracket rate) - details disclosed by the Minister of Finance during the press conference;
- Increase of the tax rate applicable to capital gains on securities to 21.5% (currently at 20%) - measure announced by the Minister of Finance during the press conference;
- Elimination of tax credits for taxpayers subject to taxation on the two upper PIT brackets (e.g., health expenses, education expenses and interest and repayment of loans on the acquisition of principal private residences are no longer deductible), with the exclusion of personal deductions (regarding family situation and children) - details disclosed by the Minister of Finance during the press conference.

*Social Security*

- Freezing of Social Security pensions, except for minimum social pensions and rural pensions, which will be updated according to the inflation rates in 2012 and 2013;
- Reduction from 15 to 12 months of the minimum contribution period required for the access to the unemployment benefit;
- Reduction to 18 months of the maximum period for benefitting from the unemployment benefit;
- Introduction of a maximum limit for the unemployment benefit, equivalent to 2.5 times the reference remuneration index ("Indexante dos Apoios Sociais"), i.e., EUR 1,048.05 (for 2011);

- Reduction of the unemployment benefit payable after the 6th month of attribution (the reduction will be for a minimum of 10%);
- Increase of the unemployment benefit payable to unemployed married couples with dependent children;
- **Reduction of the employer's social security contribution rate** - alternatives include a generalized reduction or a selective reduction depending on job creation. Selective reduction of the employer's social security contribution rate for the industry and tourist sectors was rejected on the grounds that it was incompatible with the European Union provisions on state aid. The reduction should be progressive but the percentage of reduction has not yet been released;
- Creation, from 2012 onwards, of an extraordinary contribution on pensions exceeding EUR 1,500 and elimination of the extraordinary solidarity contribution on pensions exceeding EUR 5,000 (foreseen in the State Budget for 2011 but not enacted).

*Property taxation*

- Measures previously announced, aiming at increasing Real Estate Municipal Tax (IMI) revenue, instead of Real Estate Transfer Tax (IMT):
- Revaluation of all urban properties until the end of 2012;
  - Substantial reduction of existing IMI exemptions;
  - Reinforcement of tax benefits applicable to low value properties for individuals with a low income;
  - Review of IMI rates.

## VAT

Measures previously announced:

- Reduction of VAT exemptions;
- Rationalization of the structure of VAT rates, by moving certain categories of goods and services currently subject to the reduced VAT rate to the intermediate rate (13%) and normal rate (23%) - this measure includes the previously announced change in the applicable VAT rate on energy products (gas and electricity), which passed from the reduced to the normal rate, and has been anticipated to 1 October 2011.

## Special Taxes on Consumption (IEC)

Measures previously announced:

- Convergence of the taxation of certain goods subject to IEC with the EU law (e.g., electricity);
- Update and reinforcement of taxation on certain goods subject to IEC.

## ii) Enforcing measures against fraud and tax evasion

A Strategic Plan to avoid Fraud and Tax Evasion will be prepared for the years 2012 - 2014, covering:

- The enforcement of the human resources of the Tax Administration allocated to Tax Inspection services;
- The increase of the use of information technologies towards the reinforcement of control and audits, and the permanent monitoring (in real time) of taxpayers in complying with tax obligations;

- Increase in the use of the general anti-avoidance rule to fight aggressive tax planning;
- Increase of the penalties' framework for serious tax crimes (tax scams, criminal association and aggravated fraud).

## iii) Restructuring of the tax administration

It is foreseen the merger of the General Tax Department (DGCI), the General Department of Customs and Excise Duties (DGAIEC) and the General Department of Informatics and Support of Tax and Custom Services (DGITA), aiming at rationalizing human resources and increase the coordination on the implementation of fiscal policies.

## iv) Reform of the tax system through the simplification of taxes on income

The Government intends to simplify the existing tax legislation, through a tax reform mainly focused on CIT and PIT, with the following purpose:

- Facilitate the taxpayers' spontaneous compliance with tax obligations;
- Facilitate tax audits;
- Reduce the number of brackets, deductions and exemptions on PIT, promoting the social mobility and a positive discrimination according to the size of the household;
- Introduce CIT measures aiming at promoting the internationalization and the increase of competitiveness of Portuguese companies.

**Para qualquer esclarecimento, contactar / For further information**

PricewaterhouseCoopers & Associados - S.R.O.C., Lda.  
Rua Sousa Martins, 1 - 4º,  
1069-316 Lisboa/Lisbon  
- Portugal

Tel. +351 213 599 000  
Fax +351 213 599 995  
pwc.tax@pt.pwc.com

[www.pwc.com/pt](http://www.pwc.com/pt)  
[www.pwcinfisco.pt](http://www.pwcinfisco.pt)