

Summary of the main aspects of the Green Tax Reform and of the Personal Income Tax Reform

# The year of the tax reforms 2015



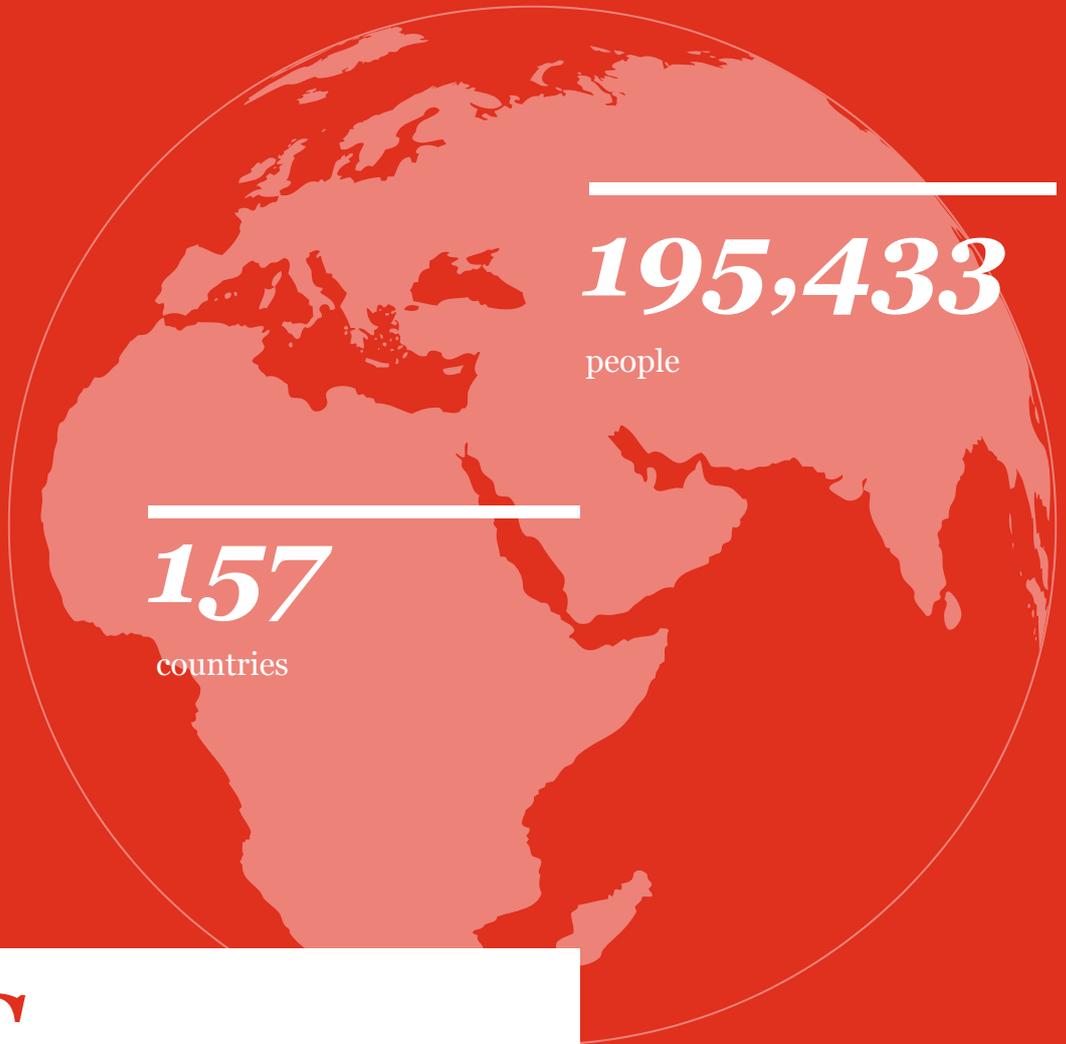
## EUR 0.08

Levy on plastic bags.



**Married** individuals may now file their tax returns separately.





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**195,433**

people

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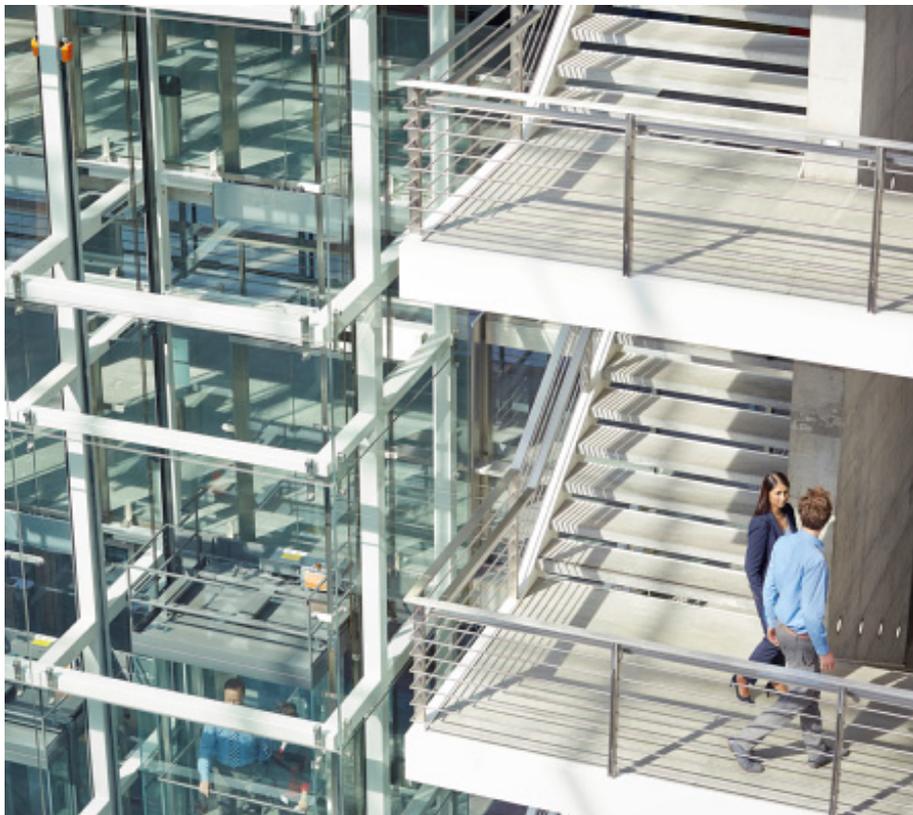
**157**

countries

***PwC***

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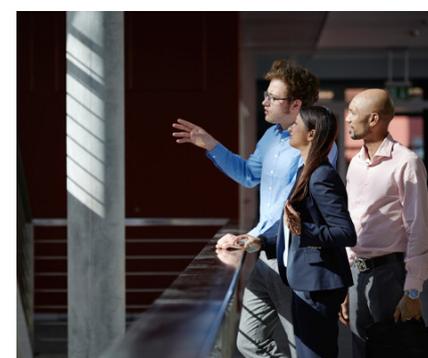
Jaime Carvalho Esteves  
analysis

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## *Green Tax Reform*



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## *Personal Income Tax Reform*



**Jaime Carvalho Esteves**  
Tax Lead Partner, in charge  
of the department "Government  
and Public Sector"

<http://pwcoe2015.com/>

*"The Personal Income Tax Reform also boosts the economy, through new and various incentives on the workforce mobility."*

# The 2015 Tax Reforms

***One year after the 2014 corporate income tax reform proposal was made public, the 2015 tax reforms are finally known and comprise personal income taxation and green taxation. We shall start the analysis with the personal income tax reform, which is by far more relevant than the other tax reform.***

## ***Family income***

The reform of family income taxation is a positive reform, particularly because it provides for a partition of taxes more aligned with fiscal equity. In addition, in the future, the new rules may even have more positive quantitative effects. However, for that purpose being achieved, it will be necessary that the budget targets, which aim at balancing revenue and expenditure, have a more positive contribution deriving from the reduction of public expenditure and rely not exclusively on the increase of fiscal revenue (see PwC analysis of 2015 State Budget). If such balance is achieved, individual taxation may finally contribute to achieve social mobility. However, even if such purpose is not yet achievable, the reform already includes several positive measures.

## ***Birth rate***

First, the reform is positive because it takes into consideration the number of members in a household to determine the family's capacity to pay taxes. The reform introduces a new family quotient (substituting the current marital quotient) that foresees the inclusion of children and, in some cases, parents to calculate the marginal tax rate that shall be applicable to the family.

However, given to budgetary reasons and some excessive fear over the possible regressivity of the new rule, the quantitative effect on tax due by families has been capped and may not exceed a fixed amount, which increases according to the number of dependent children and parents, with a maximum of 3.

This measure may contribute to prevent that fiscal reasons hinder the birth rate, which is already extraordinarily positive, and such effect may also be higher by also increasing the quantitative limits as soon as the budgetary margin (always reliant on the evolution of public expenditure) allows the reduction in fiscal revenue. As we will see in this analysis, the additional incentive relies also on education expenses deductions, as well as on the new rule allowing employers from the private sector to partially pay employees' salaries by means of tax-exempt education benefits

## ***Separate taxation***

Separate taxation becomes the standard rule. However, as it already happens with unmarried partners, families may opt for joint taxation. With this measure, the negative discrimination of married individuals, which were not allowed to be taxed separately, comes to an end.

However, as a rule, and as it already results from the marital quotient and, as of next year, will result from the new family quotient, taxpayers shall probably be more interested in opting for joint taxation. As such, taxation tends to be at least identical, if not more favorable, than separate taxation. An exception to this rule could be the case of one spouse not residing in Portugal, for example if working abroad, in which case the new separate taxation regime may be more beneficial than joint taxation.

### **Workforce mobility**

The previous change also promotes workforce mobility by eliminating a fiscal obstacle to companies' expatriation politics and families' international working options. In addition, a new exemption for workers compensations when moving abroad, as well as when placed in a distance superior to 100 km from the original residence in Portugal will also promote workforce mobility, which is good for the economy. The same reasoning applies to the new partial and temporary exemption that benefits income of new self-employed entrepreneurs and to the possibility of considering the reimbursement of housing loans as reinvestment of the sale value of the house.

### **Deduction of actual expenses**

The initial proposal of the commission in charge of the reform, which has been released during the summer, suggested that the deduction of actual costs incurred by taxpayers should be replaced by fixed-amount deductions for all families. Such measure would have contributed to a less personalized individual taxation, probably also colliding with constitutional principles, as the actual contribution capacity of the family would not be taken into consideration. The proposal would also discourage the substitution of public expenditure by private expenditure, particularly regarding health and education expenditure. In addition, such change would also collide with the combat against tax fraud and evasion, mostly by IT means, as taxpayers would no longer need to request an invoice, which allows an effective control over actual goods and services transactions and, consequently, the reduction of informal economy (by means of SAFT-PT, e-invoice, monthly income declaration, deduction of a percentage of VAT incurred with certain goods and services, invoice lottery and, most certainly, deduction of actual expenses).

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*“The option for the deduction of actual expenses maintains the personal component of the individual tax without compromising simplification.”*





*“Only the reduction of public expenses will allow that social mobility will not be reduced by the tax burden.”*

Consequently, without surprise, the final proposal kept the mechanism of deducting the actual expenses, whose range has been extended and limits increased. With this measure, it remains also possible that tax returns of taxpayers with income from salaries and pensions are pre-filled by the tax authorities.

As a result, in order to safeguard the contribution capacity of families and with the intention of not overcharging families incurring in private education and health expenses, thus generating public savings, the new system maintains separate health and education deductions. Regarding health expenses, there is an increase of related tax deduction, whereas in the case of education expenses, there is a new deduction from the taxable amount. However, with the purpose of not providing a double tax benefit, only the education expenses exceeding the tax exempt part of the social voucher for kindergarten and education (which has an extended range) are tax deductible.

### ***Savings***

With the purpose of achieving long-term savings, the tax benefits which currently only cover insurance products are extended to other financial products: deposits, financial instruments and public debt.

### ***Social mobility***

The incapacity to reduce public debt prevent that the new individual taxation regime, which is unquestionably more appropriate than the previous, has an even more beneficial effect on social mobility, causing that more families increase their welfare.

Such evidence is due to the fact that middle class income is taxed at marginal rates applicable to millionaire income as the transitory and structural measures intended to increase individual taxation (huge tax increase) have not been abolished. Regarding transitory measures, the surcharge and the additional solidarity contribution have also not been abolished by the reform. As to structural measures, the tax brackets and tax rates remain unchanged, allowing an extremely fast tax progressivity.

Nevertheless, if individual taxation and VAT revenue overcome budgetary estimates (see PwC analysis of 2015 State Budget) there may be a tax credit in 2016 corresponding to the total or partial amount of the surcharge that was paid in 2015. The amount of this tax credit, if any, will be known in January 2016 only, but taxpayers may have a reasonable estimate in the course of 2015 by accompanying budget execution.

### *Green Taxation*

Accordingly, it is important to notice that the final proposal is moderate in what concerns to tax increases and has not included other suggestions of the tax reform commission that could have had a very negative impact in tourism (air traffic and hotels).

Considering that it is important to turn Portugal into the most investment-friendly country within the EU, in order to attract investment and promote employment, there is the fear that the reform of green taxation could cancel the positive effects of the decrease of corporate income tax rate and the fiscal stability provided for by the 2014 corporate income tax reform.



[Click here to see PwC analysis of the State Budget for 2015.](#)

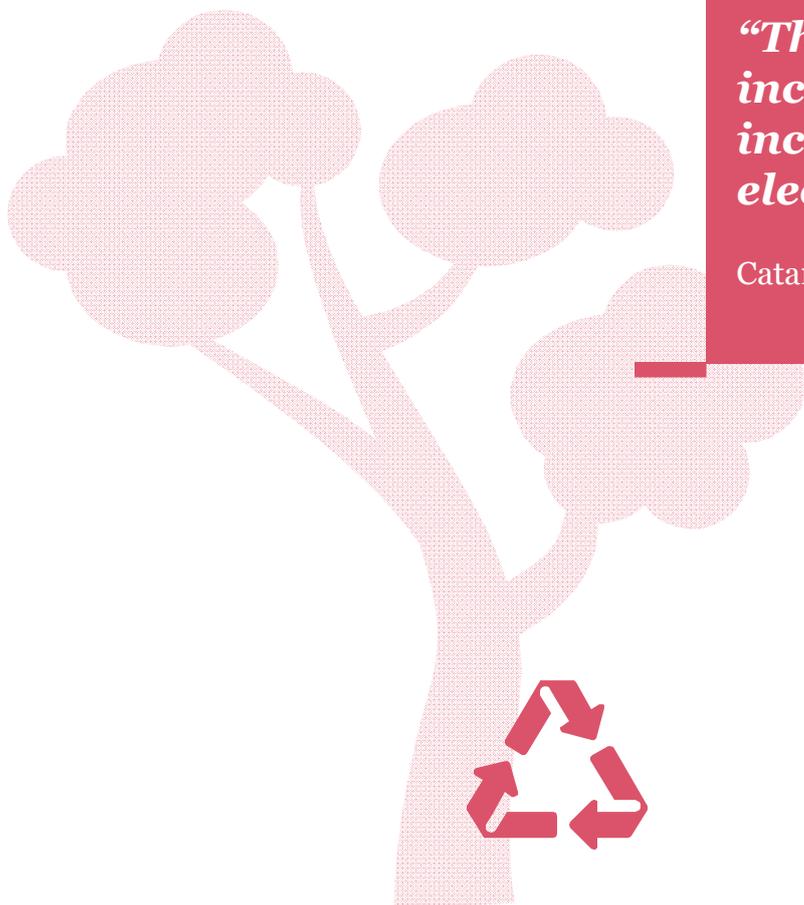


## *Green Tax Reform*



*“The Green Tax Reform includes a vast array of incentives relevant to the electric mobility”*

Catarina Gonçalves, Tax Director



## Green Tax Reform

### *CIT*

#### *Provisions for environmental clean-up costs*

It is extended to all industries the tax deductibility of provisions made for environmental clean-up costs, in the same terms and conditions already applicable to extractive and waste management industries.

### *Autonomous Taxation*

It is proposed the reduction of the autonomous tax rates from 10%, 27.5% and 35% to 5%, 10% and 17.5%, in case of plug-in hybrid vehicles, and to 7.5%, 15% and 27.5%, in case of VNG (Vehicular Natural Gas) and LPG (Liquefied Petroleum Gas) powered vehicles. The applicable autonomous tax rate depends on the vehicle's acquisition cost as presented in the table below.

#### Autonomous taxation applicable to passenger vehicles

Autonomous Taxation				
	Electric Energy	Hybrid Plug-in	VNG or LPG	Others
Acquisition cost lower than EUR 25,000	0%	5%	7.5%	10%
Acquisition cost equal or higher than EUR 25,000 and lower than EUR 35,000	0%	10%	15%	27.5%
Acquisition cost equal or higher than EUR 35,000	0%	17.5%	27.5%	35%



## Green Tax Reform

### *Depreciation Tax Rates*

It is expressly included in the Regulatory Decree 25/2009, a maximum tax rate depreciation of 8% for wind energy equipment.

The maximum depreciation tax rate applicable to solar energy equipment is reduced from 25% to 8%, meaning that the minimum useful life period for tax purposes applicable to this type of equipment is increased from 4 to 12.5 years.

### *Passenger's vehicles depreciation (Governmental Order 467/2010)*

It is foreseen an increase of the maximum acquisition cost accepted for tax purposes regarding passenger vehicles acquired as of 1 January 2015, to:

- EUR 62,500, in case of vehicles powered exclusively by electric power;
- EUR 50,000, in case of plug-in hybrid vehicles;
- EUR 37,500, in case of VNG or LPG powered vehicles.

To all others passenger vehicles the maximum acquisition cost accepted for tax purposes remains at EUR 25,000

### *VAT*

#### *Passenger vehicles*

Possibility of deducting the VAT incurred on the acquisition, manufacture, import, lease, use, transformation and repair of electric or hybrid plug-in passenger vehicles.

Possibility of deducting 50% of the VAT incurred on costs related to passenger vehicles powered by LPG (liquefied petroleum gas) or VNG (vehicular natural gas).

#### *Bike Repair Services*

The repair services of bikes (mopeds) are subject to the reduced VAT rate.

#### *Waste removal services*

It is eliminated the VAT exemption applicable to the public waste removal services. This service is now subject to the reduced VAT rate.

## Green Tax Reform



*“The indirect taxation has an important role in penalizing behaviors considered to be harmful”*

*Susana Caetano,  
Tax Director*

### **Vehicle registration tax**

#### **Rates**

Average 3% increase of:

- The rate applicable to the engine displacement component of: passenger vehicles, including mixed-use vehicles and vehicles for the transport of goods (table A), vehicles for the transport of goods with a closed cargo space (maximum 3 seats), vehicles for the transport of goods with an open cargo space or no cargo space, with more than three seats, vehicles manufactured before 1970 (table B) and motorcycles, tricycles and quatuorcycles (table C);
- The rate applicable to the environmental component of vehicles included in table A.
- The amount to be deducted from tables A and B.

Change in the rates of the vehicle registration tax, according to the type of vehicle, being now subject to:

- 60% of the tax, passenger vehicles equipped with hybrid engines, prepared for consumption, in its propulsion system, of either electric or solar energy, or either gasoline or diesel;
- 50% of the tax, mixed-used vehicles with gross weight above 2,500 kg and minimum of seven seats, including the driver, that do not have permanent or adaptable four-wheel traction;

- 40% of the tax, passenger vehicles that exclusively use liquefied petroleum gas (LPG) or natural gas;
- 25% of the tax, passenger vehicles equipped with plug-in hybrid engines, whose batteries can be charged through an electrical connection and that have a minimum autonomy, in the electric mode, of 25 km.

#### **Exemptions**

The exemption from Vehicle Registration Tax applicable to the collective transport of passengers, with maximum capacity of 9 passengers, including the driver, acquired for consideration or free of charge by a social solidarity private institution, is only possible provided that the level of CO<sub>2</sub> emissions is equal or lower than 180 g/km.

The limit applied to the level of CO<sub>2</sub> emissions allowed for the exemption of 70% of the tax amount on passenger vehicles and on mixed-use vehicles, to be used on rental services with driver and with less than four years of use, is of 160 g/km.

## Green Tax Reform

### *Tax incentive to destruction of passenger vehicles*

It is established a tax incentive regarding the destruction of passenger vehicles, applicable during 2015, by reducing the Vehicle Registration Tax up to 100% of its amount, when applicable, or by providing subsidies, that can reach:

- EUR 4,500, in case of release for consumption of a new electric vehicle;
- EUR 3,250, in case of release for consumption of a new plug-in hybrid vehicle; and
- EUR 1,000, in case of release for consumption of a new heavy quadricycle electric vehicle.

### *Excise Duties*

#### *Oil and energetic products*

Oil and energetic products that are subject to and not exempt from excise duties will be subject to a higher carbon rate in accordance with certain adding factors.

The tax rate to apply each year is indexed to the price of carbon determined in the European Emissions Trading Scheme (EETS) auction held in the previous year.

The adding factor will be 2.271654 for gasoline and 2.474862 for diesel. These adding factors may be extensive to petroleum, coal, natural gas, coke, LPG and fuel oil.

### *Other levies*

#### *Levy on lightweight plastic bags*

Is introduced a levy on lightweight plastic bags, which applies on the bags purchased by retail stores, to be supplied to the final consumers.

Taxpayers of this levy are the producers or importers of lightweight plastic bags with head-office or permanent establishment in Portugal, as well as the purchasers of lightweight plastic bags from suppliers with head-office or permanent establishment in another Member-State of the European Union.

The levy is borne by the final consumer, being the retail stores required to transfer the economic burden to the final consumers.

The economic operators that are not taxpayers for purposes of the levy, but market lightweight plastic bags to be purchased by retail stores, are also liable to transfer the levy burden to the respective purchaser.

The levy amounts to EURO.08 per plastic bag, to which it accrues VAT at the legal rate in force.

The bags that are destined to be in direct contact, or which are in fact in direct contact, with food, including ice, are exempt from the payment of this levy.



## Green Tax Reform

### **Real estate**

#### ***Quality and comfort coefficient related to the use of environmental sustainable techniques***

The use of active or passive environmental sustainable techniques is no longer considered an element deductible to the quality and comfort coefficient (one of the criteria for determining the tax registration value (TRV) of urban real estate).

#### ***Second appraisal of urban real estate***

The law clarifies that the initial fee for the request of a second appraisal of urban real estate is only due in cases where the TRV is distorted in relation to the normal market value. This rule has an interpretative nature.

#### ***Urban real estate intended for activities of public water supply, sanitation and urban waste management***

Urban real estate exclusively intended for activities of public water supply to the population, sanitation of urban waste water and municipal urban waste management will benefit from a real estate municipal tax (REMT) exemption.

#### ***Urban real estate subject to regeneration***

The period of exemption from REMT granted to urban real estate subject to regeneration is extended from two to three years.

Regarding real estate transfer tax (RETT) exemption granted to the acquisition of this type of real estate, the time limit foreseen to begin the construction works is also increased from two to three years, counted from the acquisition date.

The concept of urban regeneration is also changed and will include an additional requirement respecting the energetic classification of the real estate.

#### ***Real estate intended for the production of energy from renewable sources***

Urban real estate exclusively intended for the production of energy from renewable sources will benefit from a reduction of 50% of the REMT rate.

This exemption is to be recognized by the tax office where the real estate is located, upon request to be submitted within 60 days counted from the fact that determined the exemption. If the request is submitted after this time limit, the exemption applies as from the year following its submission.

This benefit is applicable for a period of five years.

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***The Green Taxation has not overlooked the real estate taxation.***

## Green Tax Reform

### *Other environmental benefits granted to real estate*

Municipalities may grant a reduction of up to 15% of the REMT rate to real estate considered to be energetically efficient, by resolution of the municipal assembly.

Municipalities, by resolution of the municipal assembly, may also grant a reduction of up to 50% of the REMT rate to rural real estate located in classified areas that provide ecosystem services not susceptible of appropriation by the market, to the extent that they are recognized as such by the Portuguese Institute for Nature Conservation and Forests (Instituto da Conservação da Natureza e das Florestas, I.P).

These exemptions should be recognized by the tax office where the real estate is located, upon request to be submitted within 60 days counted from the fact that determined the benefit. If the request is submitted after this time limit, the exemption applies from the year following its submission.

These benefits are applicable for a period of five years.

### *Tax Benefits*

#### *Impulse measures concerning the transport of passengers and goods by road*

For the calculation of the taxable income of companies and individuals (Category B with organized accounts), an additional tax deduction is allowed, regarding expenses with electricity, VNG (vehicular natural gas) and LPG (liquefied petroleum gas) incurred with the use of vehicles.

In the case of electricity, the related expenses are entitled to an additional deduction of 30%; for VNG and LPG the additional deduction is of 20%.

This benefit is available for the use of the following vehicles:

- a) Public passenger vehicles, with capacity for at least 22 passengers;
- b) Public or third party vehicles for the transport of goods, with at least 3.5t gross weight;
- c) Taxis.

In any situation, taxpayers should be properly licensed to operate and vehicles should be registered as fixed tangible assets.

## Green Tax Reform



### ***Expenses with car-sharing and bike-sharing systems***

A new tax incentive is available to companies and individuals (Category B with organized accounts) that incur expenses with car-sharing and bike-sharing systems.

For companies, the benefit consists of an additional tax deduction of 10% of expenses; for individuals the additional tax deduction is of 40%.

For these purposes, taxpayers must sign a contract with car-sharing and bike-sharing companies in order to address the staff needs related to home/work journeys. Contracts cannot be signed between related entities (dominant, group or simple participation relationship). In addition, car and bike sharing must be made available to all the employees.

This benefit can be accumulated with the one related to public passenger transportation passes, but limited to EUR 6,250 per employee.

### ***Bike fleet expenses***

For the calculation of the taxable income, it is allowed an additional deduction of 20% of the expenses incurred with the acquisition, repair and maintenance of bike fleet, in favour of employees.

Bikes should be maintained for at least 18 months and must be made available to all employees.

### ***Tax impulse for forestry activity - PIT***

For the calculation of individual business and professional income (category B), income derived from multi-annual forestry activity should be divided:

- a) By 12, in case of taxpayers taxed in accordance with the simplified regime;
- b) By the sum of the number of years or fraction, to which the expenses relate to, according to the general CIT rules (article 18, nr. 7 of the CIT Code) applicable to taxpayers with organized accounts.

## Green Tax Reform

### *Tax impulse for forestry activity - Real Estate Transfer Tax (RETT) and Stamp Tax*

The acquisition of rural properties or part of them located in forest areas within a Forest Intervention Zone (FIZ) will be exempt from RETT and Stamp Tax.

That exemption also applies to adjoining properties, depending on their inclusion in a FIZ within three years counting from the acquisition date. The exemption is not applicable if, after that period, properties have not been included in a FIZ.

Rural properties or part of them assigned to forestry exploitation that are contiguous to rural properties submitted to a forestry management plan in accordance with the legal regime of organisation, management and intervention forest planning (Decree-Law n.º 16/2009, of 14 January) will also be exempt from RETT and Stamp Tax, if the acquirer is the owner of the contiguous rural property.

Portuguese Tax Authorities (PTA) must approve the exemption, upon request, to be submitted before the acquisition of the property.

*The Tax Reform includes important incentives to the forestry activity.*



## Green Tax Reform

### *Tax impulse regarding forestry activity – Real Estate Municipal Tax (REMT)*

Rural properties located in forest areas within a FIZ, as well as rural properties submitted to a forestry management plan according to the legal regime of organisation, management and intervention forest planning (Decree-Law n. ° 16/2009, of 14 January), will be exempt of REMT.

Exemption applies from the year in which property is covered by a FIZ or in which it is submitted to the forest management plan referred to above. If the property is no longer within a FIZ or the forest management plan ceases to exist, the exemption will no longer apply.

The local tax office must recognise the exemption upon request to be submitted within 60 days counted from the date in which the requirements to apply the exemption are met. If the request is not submitted within this deadline, the exemption will be applicable as from the following year.

### *Tax impulse regarding forestry activity – PIT and CIT*

Financial contributions of landowners and forest producers to the joint fund created by the FIZ's management entity are entitled to an additional tax deduction of 30%, both for companies and individuals (Category B with organized accounts).

For this purpose, the forestry production must be submitted to a forestry management plan according to the legal regime of organisation, management and intervention forest planning (Decree-Law n. ° 16/2009, of 14 January).

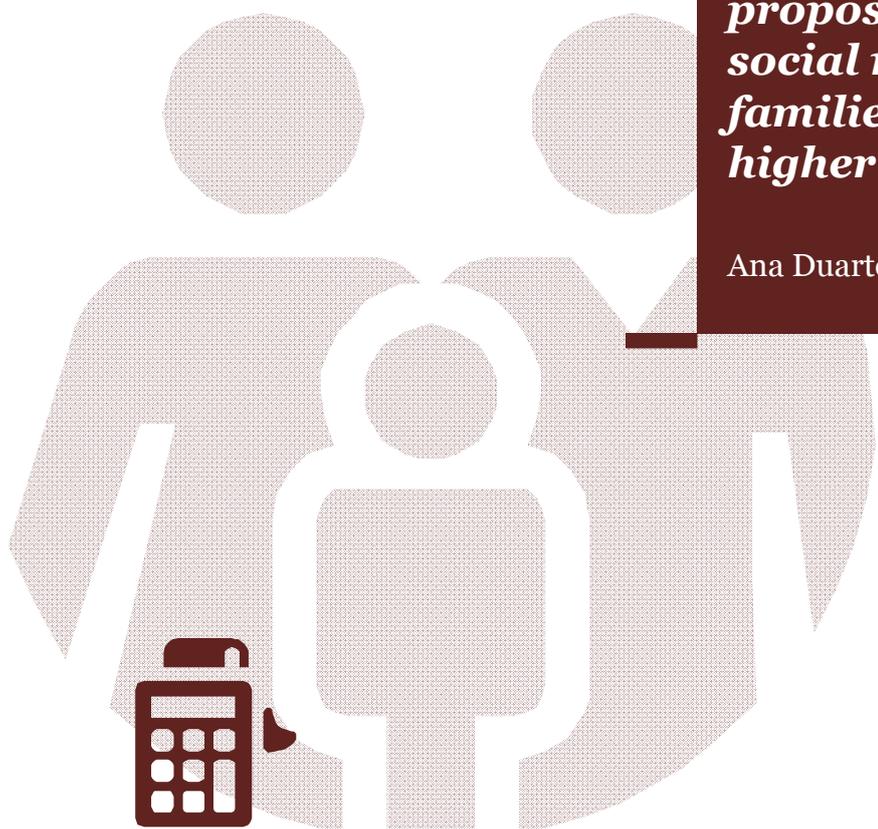
The additional deduction cannot exceed 8/1000 of the turnover of the year in which contributions are made.

## *PIT Reform*



*“ The goals of the PIT Reform proposal are simplicity, social mobility, protection of families and encouraging a higher birth rate ”*

Ana Duarte, Tax Director



## PIT Reform

*In general, the joint tax return filing will be more favourable. However, expatriation cases are typical exceptions.*

### **Taxation regime**

#### **Joint Taxation/Separate taxation**

Currently, married couples and not legally divorced must file the annual income tax return jointly, disclosing in this tax return the total income earned by both spouses. Unmarried taxpayers sharing the same fiscal address may choose to file a separate or a joint tax return.

There is a change in these taxation rules, through the introduction of a tax regime of separate tax return filing, as the general rule i.e., each taxpayer files a tax return separately, disclosing the total income earned by him/her. Nevertheless, both married and unmarried couples sharing the same fiscal address, may opt to file a joint tax return disclosing the total income earned by both. This option should be made yearly within the applicable tax return filing deadlines, otherwise the option will not be considered.

The responsibility of the spouse for the tax payment, in cases of separate tax return filing, is such as it follows from the Civil Law.

In case of taxpayers who do not opt for filing a joint tax return, the respective dependents can be included in both parents' annual income tax returns, i.e., they may be included in more than one annual income tax return.

It is foreseen that in case of decease of one of the spouses, the surviving spouse, not separated "de facto", should also fulfil the reporting obligations of the deceased spouse. Nevertheless, the surviving spouse may opt for filing a joint tax return, provided that he/she does not marry again in the same fiscal year, in which case he/she may only opt for a joint tax return with the new spouse.

#### **Family quotient**

A new family quotient is introduced in order to ensure the equity regarding the taxation, namely, through the option for a joint or separate tax return filing combined with a taxation method more correlated with the purchasing power of households, depending on the number of dependents and ascendants of the household.

## PIT Reform

*The family quotient is always neutral or more favourable to families.*

Currently, the family quotient is two (“conjugal quotient”), regardless the number of dependents in the household. In 2015, a new family quotient will become applicable, where each taxpayer has an equal weight of 1 and every dependent has a weight of 0.3. When the household files separate tax returns, the weight of each dependent will be of 0.15, as the dependent will be included in both parents’ annual tax returns. The rules for definition of dependents and ascendants that qualify for the quotient will be established.

Thus, for example, currently a couple with 3 children has to file a joint tax return, and their annual income is split by 2, before applying the progressive tax rates. In 2015, this couple may file a separate tax return, and each spouse’s annual income is split by 1.45 ( $1+0.15+0.15+0.15$ ). However, if the couple chooses to file a joint tax return, their annual income will be split by 2.9 ( $1+1+0.3+0.3+0.3$ ).

It is also introduced a limit to the benefit arising from the introduction of the family quotient, being proposed that the reduction of the tax liability, compared with 2014 tax liability, cannot exceed:

**- In case of separate tax returns:**

- EUR 300 in households with one dependent;
- EUR 625 in households with two dependents; and
- EUR 1,000 in households with three or more dependents (Please note that this is also applicable for ascendants).

**- In case of joint tax return:**

- EUR 600 in households with one dependent;
- EUR 1,250 in households with two dependents; and
- EUR 2,000 in households with three or more dependents.

**- In cases of single parents:**

- EUR 350 in households with one dependent;
- EUR 750 in households with two dependents; and
- EUR 1,200 in households with three or more dependents.

## PIT Reform

### Conjugal/Family quotient



Married // 2 Dependents // 0 Ascendants

Gross income	EUR 28,000 // EUR 1,000 per month / Taxpayer	
	2014	2015
<b>Gross income</b>	<b>28,000.00</b>	<b>28,000.00</b>
Net income	19,792.00	19,792.00
<b>Conjugal/ Family quotient</b>	<b>2</b>	<b>2.6</b>
Net income after application of the conjugal/ family quotient	<b>9,896.00</b>	<b>7,612.31</b>
Tax rate applied	28.50%	28.50%
Less: deduction re lower rates	-980.00	-980.00
Sub Total	1,840.36	1,189.51
<b>Total tax due</b>	<b>3,680.72</b>	<b>3,092.72</b>
<b>Difference between total tax due in 2014 and in 2015</b>		<b>-588.00</b>

Married // 3 Dependents // 0 Ascendants

Gross income	EUR 56,000 // EUR 2,000 per month / Taxpayer	
	2014	2015
<b>Gross income</b>	<b>56,000.00</b>	<b>56,000.00</b>
Net income	47,792.00	47,792.00
<b>Conjugal/Family quotient</b>	<b>2</b>	<b>2.9</b>
Net income after application of the conjugal/ family quotient	<b>23,896.00</b>	<b>16,480.00</b>
Tax rate applied	37%	28.5%
Less: deduction re lower rates	-2,680.00	-980.00
Sub Total	6,161.52	3,716.80
<b>Total tax due</b>	<b>12,323.04</b>	<b>10,778.72</b>
<b>Difference between total tax due in 2014 and in 2015</b>		<b>-1,544.32</b>

## PIT Reform

Although depending on the results achieved by the personal income tax reform and the evolution of the Portuguese economic and financial situation, the tax reform Law proposal foresees an increase of the dependent and ascendant quotient, for 2016 and 2017, to:

- 0.4 e 0.5, respectively, in cases of PIT joint tax return;
- 0.2 e 0.25, respectively, in cases of PIT separate tax returns.

Similarly, it is foreseen the increase of the limits of the benefit arising from the introduction of the dependent or ascendant quotient in 12.5%, in each of the referred years.

### **Tax deductions**

The tax deductions have been reformulated as detailed below and as per the comparative table:

- Deduction of a fixed amount of EUR 325 and EUR 300, respectively, per dependent and ascendant living in the same household and who does not receive income higher than the minimum pension payable under the general regime. Regarding the dependents who are included in more than one annual tax return, the amount of tax deduction corresponds to 50% of that amount.
- Deduction of general household expenses, corresponding to 40% of the amount of expenses incurred by any member of the household, limited to EUR 300 per taxpayer, whose taxpayer number is included in invoices for services or goods acquired in any sector of activity, provided these expenses are communicated to the Portuguese tax authorities, except for the sectors referred below. Therefore, in case of joint tax returns, the limit above referred is EUR 600.
- Deduction of 20% of the amount of alimony paid, without limit (which will be subject to taxation at the same tax rate).
- Deduction of 25% of the amount of donations made to central, regional or local Administration entities and foundations, without any limit, and limited to 15% in case of donations made to other entities.
- Deduction of 15% of non-reimbursed health expenses exempt from VAT, or subject to VAT at a rate of 6%, communicated to the Portuguese tax authorities, up to a limit of EUR 1,000.
- Deduction of 15% of the VAT incurred by any household member, included on invoices communicated to the Portuguese tax authorities, with the global limit of EUR 250, for services acquired in any of the following activity sectors:
  - Maintenance and repair of motor vehicles, motorcycles and related parts and accessories;
  - Accommodation, restaurants and similar food service activities;
  - Hairdressers and beauty salons.

The taxpayers do not need to keep copy of the invoices to justify the expenses referred above as those expenses are communicated to the Portuguese tax authorities by the respective issuing entity.

If the taxpayers do not proceed with the submission of their Portuguese tax return within the legal deadline, they lose the right to benefit from any of the referred deductions related to the general household expenses, health expenses and deduction for demanding the issue of invoice.

## PIT Reform

### PIT tax deductions

Amounts in Euro

	2014	2015
 <b>Personal and family deductions</b>		
i) Per taxpayer	213.75	N/A
ii) Single-parent taxpayers	332.50	N/A
iii) Dependents	213.75	325.00
Dependents <= 3 years old on December 31 of the year to which the tax relates	427.50	
Households with three or more dependents /for each dependant	237.50	N/A
iv) ascendant actually living in the same household with the taxpayer who do not receive income greater than the minimum pension payable under the general regime	261.25	300.00
v) Only one ascendant actually living in the same household with the taxpayer who receives income <= of the minimum pension payable under the general regime	403.75	
 <b>People with disabilities</b>		
i) For each taxpayer	1,900.00	1,900.00
ii) For each dependent with disability	712.50	712.50
iii) For each ascendant with disability	712.50	712.50
iv) 30% of education and rehabilitation expenditures	No limit	No limit
v) 25% of life insurance premiums or contributions paid to mutualism associations	15% of computed tax	15% of computed tax
- Old age related retirement contributions	65.00	65.00
 <b>Health expenses</b>		
Deduction of the following expenses:		
a) Acquisition of goods and services which are exempt from VAT or that are liable to the reduced VAT rate of 6%	(2) 10% of the expenses incurred, with limit of 838.44	15% of expenses incurred with limit of 1,000.00
b) Acquisition of other goods and services duly justified with a medical prescription	65.00 or 2.5% de a) if above	N/A
c) The health expenses limit shall be increased for households with three or more dependents for each dependent, in	125.77	N/A
 <b>Education and training expenses</b>		
i) 30% of amounts spent up to a limit of	760.00	(see note regarding deductions to net income)
ii) In households with three or more dependents the limit referred to in i) shall be increased, for each dependent with education expenses	142.50	
 <b>Retiring home fees</b>		
25% of charges for homes and institutions to support the taxpayer, ascendant and relatives until the third degree who do not have income equal to or above the minimum monthly wage	403.75	N/A
 <b>Alimony</b>		
20% of the amount paid	419.22 per month, by beneficiary	No limit

## PIT Reform

### PIT tax deductions

Amounts in Euro

	2014	2015
 <b>Real Estate costs</b>		
Deduction of 15% of the following expenditures:		
a) Debt interest, for contracts concluded until 31 December 2011, incurred with the acquisition, construction or improvement of permanent private residential property used as the taxpayer's permanent private residence, or rent (paid) in respect of a tenant's duly substantiated permanent residence;	296.00	N/A
b) Installments payable as a result of contracts concluded until 31 December 2011 with housing cooperatives or under the group purchasing regime, for the purchase of residential property for use as the (taxpayer's) personal and permanent residence or rental paid in respect of a tenant's duly substantiated permanent residence, to the extent in which they refer to interest of related debt;	296.00	N/A
c) Amounts paid by way of rent under a leasing contract concluded until 31 December 2011 regarding a personal and permanent residence under this regime, to the extent that it does not constitute repayment of capital;	296.00	N/A
d) Amounts, paid by way of rent, net of subsidies or official contributions, concerning an urban real estate or fraction for permanent housing under the Urban Rental Regime or the New Urban Rental Regime.	414.00	N/A
The limits set out in paragraphs a), b) and c) are increased as follows:		
- Taxable income up to first bracket - 50%;	444.00	N/A
- Taxable income up to 2nd bracket - 20%.	355.20	N/A
The limits set out in paragraph d) are increased as follows:		
- Taxable income up to first bracket - 50%;	621.00	N/A
- Taxable income up to 2nd bracket - 20%.	496.80	N/A
 <b>Retirement Savings Funds and Retirement Savings Plans (3)</b>		
Tax credit of 20% of the amount invested:		
i) People under 35 years old;	400.00	N/A
ii) People between 35 and 50 years old;	350.00	N/A
iii) People above 50 years old.	300.00	N/A
 <b>Donations</b>		
Tax credit of 25%:		
i) Central, regional or local administration; Foundations (with conditions);	No limit	No limit
ii) Donations to other entities.	15% of computed tax	15% of computed tax
 <b>Value Added Tax (VAT) borne (4)</b>		
Deduction of 15% of the VAT incurred by any household member included on invoices communicated to the tax authorities regarding certain provision of services	250.00	250.00
 <b>Family general expenses</b>		
Deduction of 40% of the amount of expenses incurred by any member of the household provided that the taxpayer number is included in the invoice for expenses incurred and services provided communicated to the Portuguese tax authorities.	N/A	300.00/per taxpayer

## PIT Reform

### Limitation to computed tax deductions and tax benefits

(Increase of 10% per dependent when the deductions are limited)

	2014	2015
<b>Limits to aggregate computed tax deductions</b>	<b>(5)</b>	
<b>The limits to aggregate computed tax deductions are:</b>		
- Taxable income within the 1 <sup>st</sup> bracket	No limit	N/A
- Taxable income within the 2 <sup>nd</sup> bracket	<b>(6)</b> 1,250.00	N/A
- Taxable income within the 3 <sup>rd</sup> bracket	<b>(6)</b> 1,000.00	N/A
- Taxable income within the 4 <sup>th</sup> bracket	<b>(6)</b> 500.00	N/A
- Taxable income within the 5 <sup>th</sup> bracket	0,00	N/A
<b>Limits to tax benefits deductible to computed tax</b>		
<b>The limits to benefits deductible to computed tax are:</b>		
- Taxable income within the 1 <sup>st</sup> bracket	No limit	N/A
- Taxable income within the 2 <sup>nd</sup> bracket	100.00	N/A
- Taxable income within the 3 <sup>rd</sup> bracket	80.00	N/A
- Taxable income within the 4 <sup>th</sup> bracket	60.00	N/A
- Taxable income within the 5 <sup>th</sup> bracket	0.00	N/A

(1) Assuming that both taxpayers are people with disabilities.

(2) This limit applies to paragraphs a) and b).

(3) Amounts invested after the retirement date are not deductible.

(4) Deductible expenses incurred with services acquired in the following sectors of activity:

- Maintenance and repair of motor vehicles;
- Maintenance and repair of motorcycles and related parts and accessories;
- Accommodation and food service activities;
- Hairdressers and beauty salons.

(5) Health expenses, education and training expenditures, nursing home fees, costs with immovable property and alimony are included.

(6) These limits are increased by 10% for each dependent or civil godson, which is not a taxpayer

### Deduction to net income

	2014	2015
<b>Tax credit of education and training expenses</b>		
Education and training expenses of the taxpayer and dependents are deductible to the total amount of net income		1,100.00 for each taxpayer or dependent, for education and training expenses (excluding exemption of social tickets)
	N/A	This deduction to the net taxable income cannot exceed: - 2,2500 by tax return; - 4,500 by tax return, in cases of opting for joint tax return

## PIT Reform

### *Deduction of education and training expenses*

Notwithstanding the elimination of the education expenses tax credit, currently in force, it will be possible to deduct to the taxable net income the education and training expenses of the taxpayer and dependents up to the limit of EUR 1,100 per taxpayer or dependent with education and training expenses.

Despite the referred limit for each household member, the tax credit cannot exceed EUR 2,250 or EUR 4,500 per PIT tax return, depending if the filing is separate or joint, respectively.

It will only be possible to deduct expenses included in documents communicated to the Portuguese tax authorities by issuing entities, and provided that they identify the taxpayer or household member. The referred documents should only include education and training expenses and should be identified as such in the Portuguese tax authorities' website.

It is considered as education expenses, the expenditures with the payment of child and baby nurseries, kindergartens, schools, educational institutions and other educational services, as well as expenditures with manuals and school books.

The public institutions and other good and service providers are, in this case, with the necessary adaptations, under the obligation to communicate to the Portuguese tax authorities, until the final of January of the year following the one the payment was made, the amounts of tuition fees and other charges, that qualify for this deduction on a specific form to be approved.



## PIT Reform



*“The safeguard clause guarantees that the taxation in 2015, comparing to 2014, will be necessarily equal or lower”*

*Leendert Verschoor,  
Tax Partner*

### **Safeguard clause**

In order to eliminate the risk of a personal income tax increase, comparing to 2014, which could happen due to the elimination of some tax deductions, the PIT reform includes a safeguard clause, according to which, the PIT assessment rules, introduced by the reform, cannot give rise in 2015, 2016 and 2017 to a tax liability higher than the one which would be due according to the rules in force in 2014.

The application of the safeguard clause will depend on the option to be made by the taxpayer when filing the tax return and only if the tax return is filed within the legal deadline. If the taxpayer makes that option, he/she will have to confirm the health, education and housing expenses in the PIT return and should identify on the Portuguese tax authorities' website the respective invoices or receipts supporting the expenses.

When the option is made, the Portuguese tax authorities will send to the taxpayer the tax assessment that is more favourable to him/her.

### **Tax Residence**

The concept of tax residence in the Portuguese territory is changed with the introduction of the partial residence concept, so that there is a direct connection between the period of physical presence in Portuguese territory and the status of tax resident. Thus, as a rule, the taxpayer will become resident in Portugal as from the first day of stay in the Portuguese territory and non tax resident as from the last day of stay in Portugal.

Nevertheless, there are situations foreseen, where even if the individual meets the conditions to qualify as “partial tax resident” in a certain year, he/she may be considered as tax resident for the entire year if he/she has qualified as Portuguese tax resident in the previous year or if he/she may qualify as tax resident in the following year.

It is eliminated the rule that establishes the attraction of the tax residence to Portugal when the spouse is considered tax resident in Portugal, in line with the new possibility of option for separate filing of PIT returns by married couples.

Whenever taxpayers change their tax status in Portugal, they will be under the obligation to communicate this change to the Portuguese tax authorities within 60 days (currently no deadline is foreseen for this change).

## PIT Reform

### Employment income (Category A)

The child tickets tax regime is extended (currently applicable to dependents up to 7 years old), to the education tickets for dependents up to 25 years old, up to the limit of EUR 1,100, per dependent. This limit will become applicable also to the child-tickets for dependents up to 7 years old.

It is established an exclusion from taxation of compensation paid in case of a change of the workplace in the year of displacement, when the new workplace is at more than 100 km from the previous workplace. The amount of this exclusion is limited to 10% of the annual remuneration, with the limit of EUR 4,200, and can only be used once in each period of 3 years.

The annual taxable income derived from the private use of a company car, will be quantified by the application of 0.75% to the market value of the car at 1 January of the relevant year, rather than on the car acquisition or production price. The market value will result from the application of devaluation coefficients published by Ministerial Order, which are already used to determine the taxable income arising from the acquisition of a company car by employees

In relation to interest-free loans or loans with reduced interest rate granted by the employer, except those granted for purchase of real estate to be used as the individual's personal and permanent residence, and provided that the loan is lower than EUR 180,426.40 (currently, EUR 134,675.43), it is foreseen that, in case of absence of the publication of a Ministerial order to establish the reference rate for the transaction, the benefit is quantified by reference to 70% of the minimum rate applied in case of the main refinancing operations of the European Central Bank, or another rate legally fixed as equivalent, of the first working day of the year the income respects to.

### Child/Education Tickets

	Tax	2014	2015
 Child ticket	Social Security	Exempt	Exempt
	PIT	Exempt	Exempt, up to limit of EUR 1,100
	CIT	Cost accepted in 140%	Cost accepted in 140%
 Education ticket	Social Security	Exempt	Exempt
	PIT	Taxable	Exempt, up to limit of EUR 1,100
	CIT	No increase of the cost	Cost accepted in 140%

## PIT Reform

It is amended the wording of the rule related to compensation payments due for termination of duties of public managers, company board members and legal representatives of permanent establishments (branches), to clarify that compensation received is taxed only on the part that respects to these same functions, clarifying that the part of the compensation concerning the periods in which they exercised their duties as regular employees may continue to benefit from the tax exclusion.

Elimination of the increase of the specific deduction to employment income arising from contributions to professional bodies supported by the taxpayer.

Harmonization of the concept of employer, in accordance with the remaining provisions of the PIT Code, extending the concept to entities of simple participation.

Extension of the exemption of withholding tax to all benefits in kind.

### ***Expatriates' tax benefit***

A tax benefit is created to employees that move from their normal work place to perform professional activity in a foreign country during at least 90 days, of which 60 days have to be consecutive.

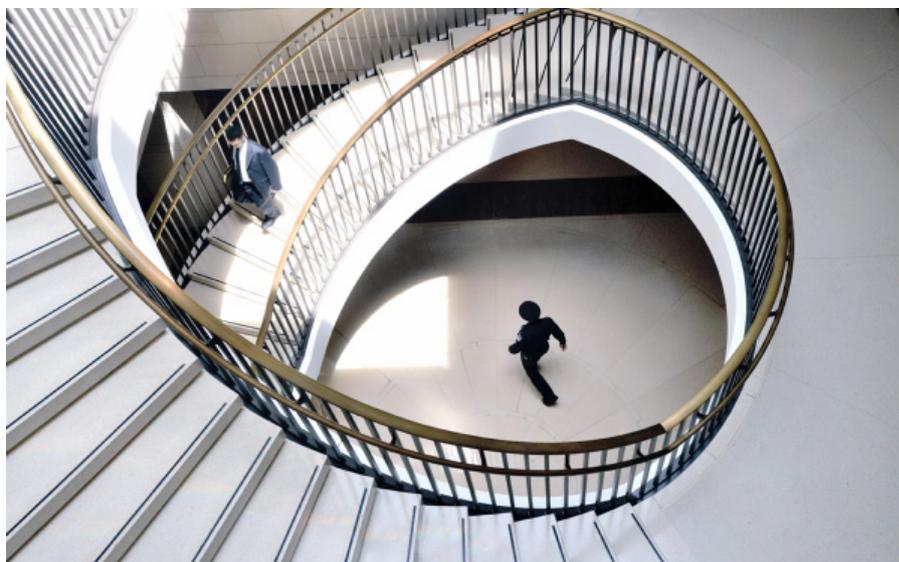
The tax benefit created consists of a tax exemption applicable to the part of the remuneration paid to the employee, by the Portuguese employer, exclusively as a compensation for moving and staying abroad.

However, the annual value of the employee's exempt remuneration can not exceed EUR10,000 or the value corresponding to the difference between the annual taxable value of the employee's remuneration, including the compensation and the global amount of the regular taxable remuneration earned by the employee, in the previous year excluding any compensation received in that period. Nevertheless, the exempt income should be considered for determination of the tax rate to apply to taxable income.

Besides Portuguese tax residents moving to a foreign country, employees on assignment abroad that qualify as non tax resident in Portugal, may also benefit from this tax exemption, up to the limit of 3 years after the beginning of the assignment.

To apply for the referred exemption it is necessary the existence of a written agreement between the employee and the employer, in which should be specifically identified the destination and period of assignment, as well as the total remuneration to be paid to the employee and the part of the remuneration related to the compensation for moving and staying abroad.

The exemption foreseen in this regime cannot be combined with any other tax benefit applicable to remuneration (Category A) or with the non-habitual residents regime.



## PIT Reform

### ***Self-employment Income (Category B)***

#### ***Deduction of the mandatory Social Security contributions***

It is foreseen the deduction to the net income of category B, resulting from the imputation of profits of companies subject to the tax transparency regime, of the mandatory social security contributions, provided that the taxpayer carries out his professional activity through such companies.

It is foreseen that taxpayers subject to the simplified regime of taxation, who obtain self-employment from professional activities (listed on table of article 151 of the PIT Code) or income from other activities not included on the table, can deduct the mandatory social security contributions, related with the referred activities, that exceed 10% of the gross income, provided that those contributions are not deducted for other purposes.

#### ***Simplified regime coefficients***

Under the simplified regime of taxation, a new coefficient of 0.35 is introduced being applicable to services not expressly foreseen in the table referred to in article 151 of the PIT Code.

Clarification that the coefficient of 0.75 is only applicable to services listed in the table referred to in article 151 of the PIT Code.

The coefficient applicable to exploitation allowances (0.15) is harmonized with the coefficient established for sales of goods and products and for services provided related to hotels and similar activities, food and beverage.

In order to encourage the entrepreneurship and social mobility, the coefficients used to calculate the taxable income related to services provided and to exploitation allowances are reduced in 50% and in 25%, in the tax year of the beginning of the activity and in the following tax year, respectively, provided that there has not been a cessation of activity in the previous 5 years.

This regime is applicable to taxpayers who start their activity after 1 January 2015, provided that they do not receive employment or pension income during the referred periods.

## PIT Reform

### *Period of permanence in the regime*

Elimination of the rule that provides the permanency over a minimum period of three years in the organized accounts regime/simplified regime before changing to another regime. Therefore, the option for the Category B income determination regime should be made until the end of March of the year in which the taxpayer intends to change to another regime. Similarly, it is foreseen that the option for taxation of income as category A, when accrued as a result of services rendered to a single entity, should be made on an annual basis.

It is foreseen that PIT taxpayers that are currently being taxed under the simplified regime may freely opt, until the end of March 2015, for the organized accounts regime.

It is established that whenever there is a change in the taxation regime of Category B income the necessary adjustments should be made in order to prevent the double taxation or non taxation of income.

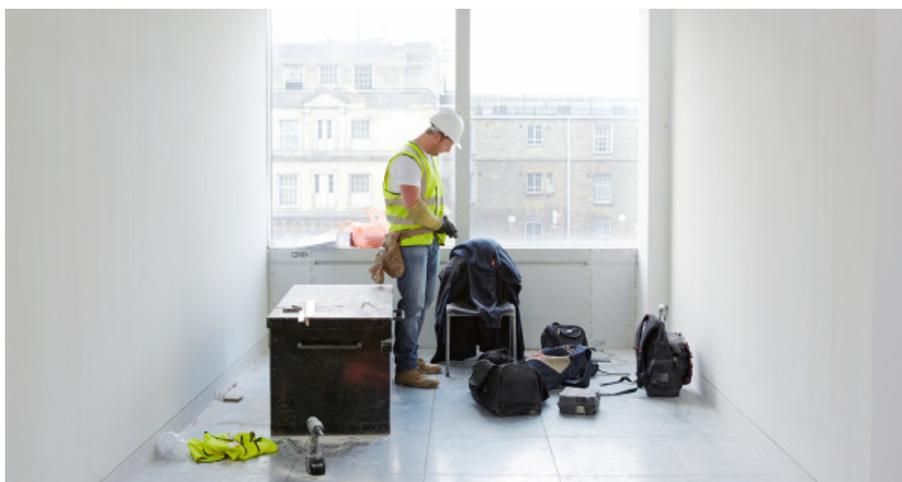
### *Isolated acts*

Regarding the isolated acts, it is clarified that taxpayers that perform isolated acts are always exempt to have organized accounts.

For the calculation of the taxable income it is applicable the coefficients of the simplified regime, if the gross income earned is lower or equal to EUR 200,000. Nevertheless, if the net annual income is higher than EUR 200,000, the taxable income should be calculated according to the rules foreseen for the organized accounts regime.

### *Rental income*

Introduction of the possibility of option for taxation of the rental income as Category B income (business and professional activities). The referred option should be made through the declaration of beginning of activity or through a declaration of changes. However, in order to determine the income subject to taxation, it should be taken into account the same rules used for determination of the rental income in “Category F” (rental income).



## PIT Reform

### **Investment Income and Capital Gains (Categories E and G)**

Harmonization of the tax rate applicable to investment income and capital gains earned by tax residents and non tax residents in Portugal to a flat or special tax rate of 28%. Contrary, at present, depending on the investment income nature, the actual tax regime foresees the possibility of taxation at marginal tax rates for investment income as, for example, income arising from foreign investment funds.

There is a restructuring of the incidence norms of Category E (investment income) and Category G (capital gains) income, in order to correct inconsistencies between the income nature and the incidence norm applicable, namely, because it only considers the gains and not the losses.

### **Investment Income**

Harmonization of the wording related to distributed profits with the terminology used for CIT purposes. The referred wording will refer to profits and to reserves made available, including payments on account of profits, either distributed by entities subject to CIT or by non resident entities.



The following will become expressly typified as capital investment income:

- Interest and other forms of remuneration of equity accounts with guaranteed price or other similar operations;
- Income distributed from participation units in investment funds;
- Indemnities received to compensate losses in this category of income.

With exception of interest rate swaps, the gains arising from other *swaps*' operations, will no longer qualify as investment income but as capital gains.

The PIT reform foresees the extension of the economic double taxation elimination regime of distributed profits by entities resident in an European Economic Area, that are bound by an administrative cooperation agreement in tax areas, similar to entities of the European Union.

To encourage long term savings, it is foreseen, that the interest of deposits of any application in financial institutions or public debt, benefit from a tax exemption in 1/5 and 3/5 of its value, if the capital is not withdrawn during 5 and 8 years, respectively, and the remuneration maturity occurs at the final of the agreed period.

## PIT Reform

### **Capital gains and losses arising from the sale of securities**

The PIT reform foresees that the following income should be taxed as capital gains, such as the one derived from:

- Reimbursement of bonds and other debt securities;
- Redemption of units in investment funds and liquidation of these funds;
- Onerous transmission of credits;
- Onerous cession of accessory and supplementary capital contributions.

Similarly, it is established that the income arising from liquidation, termination or revocation of fiduciary structures, namely, trusts, are subject to taxation as capital gains, when the resulting amount is allocated to the taxpayers that have settled (settlor) them. The amounts distributed at the time of the liquidation of the referred structures to beneficiaries, that have not settled them, are subject to stamp tax incidence, therefore being not subject to PIT.

It is clarified that in cases of exchange of present assets for future assets, the relevant moment for taxation purposes occurs at the moment of concluding of the contract that formalizes the acquisition of the future asset, or at the moment of transfer, if earlier.

Rules are established for the determination of net income generated by transmission of *warrants*, prior to exercise. It is also proposed that for the determination of the acquisition cost of the autonomous *warrants* are used the same rules as for the determination of shares/securities acquisition cost.

The new rules for determination of the net income from transactions related to autonomous *warrants*, in case of *call warrants*, *put warrants* and transmission of *warrants* enable the exercise price to be adjusted by the subscription premium or the acquisition price of the *warrant*, respectively, in the acquisition by subscription or subsequent sale.

It is proposed that for calculation of the capital gains arising from the sale of shares, the acquisition cost of the shares is adjusted by the application of monetary devaluation coefficients, provided that 24 months have elapsed between the date of acquisition and the date of sale.

Expenses with the acquisition of shares will start to be considered for the determination of capital gains.

In case of exchange of shares, mergers and split-off, it will become applicable to individual shareholders the same taxation and exemption rules in force for corporate shareholders of merged or split companies, according to the CIT code.

## PIT Reform



*“trusts’ taxation rules deserve a deep and thoughtful reflection.”*

*Jaime Carvalho Esteves,  
Tax Lead Partner*

### **Exit tax**

It is proposed to revoke the regime according to which the deferred capital gains resulting from transactions such as share exchange, mergers and companies’ split-off will be subject to PIT in the year that the shareholder ceases to be considered as Portuguese tax resident. The referred regime had been regarded as incompatible with the European Law by the European Court of Justice (ECJ).

### **Real estate capital gains**

#### **Permanent housing – Reinvestment**

The exemption regime for capital gains arising from the sale of a permanent home is reorganized and extended to 12 months (currently 6 months) the deadline granted to the taxpayers to allocate the real estate to his permanent home, counted as from the reinvestment date.

Similarly, in other situations, for example, when the reinvestment is made through the construction, expansion, enlargement or improvement of real estate, the deadline for the real estate registry is extended from 24 to 48 months. On the other hand, the real estate object of reinvestment should be allocated to the permanent home of the taxpayer or his household until the end of the fifth year after the sale. Additionally, the taxpayer has no longer a deadline to start the work construction.

It is proposed that, given the actual economic situation, the exclusion of taxation, applicable when the sales proceeds are reinvested in the acquisition of a permanent home, is also applicable when the reinvestment is made to repay the loan for the acquisition of the property sold. This is a transitory regime applicable to properties sold between 2015 and 2020, when the respective loan agreements were concluded up to 31 December 2014.

## PIT Reform

### ***Eligible expenses***

Broadening of the eligible expenses for the determination of gains and losses regarding the sale of properties, to include the compensation paid for a waiver of a contractual participation or other rights inherent to immovable property and enlargement, from five to twelve years, of the period of eligibility of the duly documented costs incurred with improvements of the property.

### ***Sale price presumption***

Possibility to rebut the assumption that the sale values for real estate, for the purpose of determining the capital gain and loss, corresponds to the value to be used for settlement of Municipal Tax on Real Estate Transfer (IMT), when the sale price, disclosed in the notarial deed of sale, is lower than its Tax Registered Value, i.e., it will be possible, through proof, to consider the value of the notarial deed of sale for the purposes of calculating the capital gain.

### ***Sale price adjustment***

The taxpayers have now a special deadline – until the end of January of the following year – to submit an amended tax return to report the final sale price, whenever it occurs positive or negative adjustments to this sales price.

### ***Free acquisition – Donations***

The anti-abuse rule is changed regarding the determination of the acquisition value of a real state acquired by an exempt donation. According to the new regime the acquisition value is the real estate registered taxable value (Valor Patrimonial Tributável- VPT)) as of the acquisition date by the donator (at present it is considered the VPT registered value of the two years prior to the donation). It is also established that this rule is applicable to free acquisitions realized in the last 2 years.

### ***Rental income (Category F)***

Broadening of the concept of the deductible expenses against rental income. It will be possible to deduct all the expenses effectively incurred and paid by taxpayers in order to obtain or assure such income, excluding the financial costs, furniture, households appliances, decoration and comfort accessories. Regarding properties in horizontal proprietorship, it will be also deductible other mandatory expenses incurred by the owner of each fraction.

## PIT Reform

It can also be deducted the expenses incurred in the 24 months previous to the beginning of the lease/rent, concerning repair and maintenance expenses of the property, provided that during such period the property has not been used for another purpose than the lease.

The rental income that results from a consistent practice of the lease of properties, by option of the taxpayer may be taxable as income from business and professional activities (self-employment – Category B). However, in order to determine the income subject to taxation, it should be taken into account the same rules used for determination of the rental income in “Category F”.

### ***Pension income (Category H)***

It is proposed that alimony are subject to taxation at a special tax rate of 20% (currently subject to progressive tax rates), in order to neutralize the effect of the tax deduction of 20% of the value of alimony paid in relation to dependents in charge of a single parent, which will cease to be limited to a monthly IAS (Social Support Index) per beneficiary.

It is proposed to revoke the regressive rule applicable to the specific deduction to pensions when the gross annual income exceeds the amount of EUR 22,500, being now only deducted a fixed amount of EUR 4,104, in line with the value of the specific deduction applicable to the employment income.

### ***Aggregation***

It is proposed that, when the taxpayer chooses to aggregate the income subject to final withholding tax rates, the taxpayer should only be under the obligation to aggregate the total income of the same nature (same category), when currently the taxpayer has to aggregate the total income from all categories subject to a final withholding tax or a special tax rate.

The taxpayer that wants to make the option to aggregate his/her investment income taxed at flat tax rates should request to the paying entity the issue of a document supporting the income earned and the withholdings made, no deadline being applicable for this purpose. Currently, this request have to be made until 31 January of the year following the one to which the income relates to, in order o enable the taxpayer to opt for the aggregation.

## PIT Reform

### *Deduction of tax losses*

As from 1 January 2015, it is established that the net negative results determined in the different categories of income can only be deducted to the positive net results of the same category of income for each taxpayer, in the following deadlines:

- The rental income losses can only be deducted to the gains of the same category of income, within the established deadline of 6 years, instead of the current 5 years;
- The negative net income in category B can be carried forward according to the rules established in the CIT code regarding tax losses deduction, i.e., in the following 12 years;
- The negative balance of category G, arising from operation with financial instruments can be carried forward in the following 5 years, instead of the current 2 years.

### *International Double Taxation elimination*

It is proposed that international tax credits not deducted in a given tax year, due to insufficient Portuguese tax liability in the year in which the foreign source income is reported in the annual tax return in Portugal, may be carried forward for the following 5 years.

### *Tax representative*

It is proposed the elimination of the presumption that, unless stated otherwise, the tax representative is also manager of the non-tax resident's assets and values.

It is also proposed to introduce in the PIT Code the possibility for the tax representatives to renounce to the tax representation.

### *Filing deadlines for annual income tax returns*

- Elimination of the different deadlines for filing the annual tax returns due to the substantial increase of the electronic filing in the last years. Therefore, it is proposed a single deadline for both electronic and paper filing of the annual tax returns, as follows:
  - from March 15 until April 15, if only employment income or pensions are to be disclosed;
  - from April 16 until May 16, if other sources of income are also to be disclosed.

The above deadlines are applicable in 2016 where the tax return filed will be related to fiscal year 2015.

## PIT Reform

Additionally, it is proposed to extend the above referred deadlines until 31 December, if foreign sourced income is declared and requested a tax credit for double international taxation, whenever the final tax to be paid in the State of source is unknown at the time of the above deadlines.

### ***Waiver of filing obligation***

The waiver of PIT filing obligation is applied to taxpayer who have earned:

- Employment income or pension whenever the total amount is equal or less than EUR 8,500, instead of the current EUR 4,104; and
- Income subject to a final tax withholding rate, whenever the taxpayer has not opted for aggregation.





*“The PIT reform creates a basis for a better tax, with potential more relevant quantitative impacts, as soon as the public expenses reduction allows it.”*

Jaime Carvalho Esteves,  
Tax Lead Partner

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