



# A tax-free Budget Law?

**2026 State Budget Law Proposal**

October 2026  
[pwc.pt/statebudget](https://pwc.pt/statebudget)



# Content

## 2026 State Budget Analysis of the Law Proposal

This document presents the tax measures of the Law Proposal and also other ongoing initiatives that include tax measures, impacting the lives of citizens and companies.

At PwC, we anticipate what is already known so you can stay informed.

**When in doubt, PwC explains.**

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**Rosa Areias**

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Await with greater expectation the standalone legislative initiatives that may emerge and could positively impact the competitiveness of the national economy.”

# A tax free Budget Law?

## Analysis

Dear readers,

The State Budget (SB) for 2026 arrived earlier and is light on tax matters. As previously announced, and given the circumstances, **the Government has chosen to include only surgical legislative changes in the State Budget, reserving tax policy choices for standalone legislation.** However, these choices still have a financial impact on the SB, as evidenced in the budget report.

Among these standalone measures, **the reduction of the Corporate Income Tax (IRC) rate to 17% through 2028** stands out, generating, from the Government’s perspective, a steady decrease in revenue of € 300 million per year. On the other hand, the report estimates for 2026 a positive impact of € 124 million on tax revenue resulting from the end of the indirect SIFIDE. It is important, with respect to this latter point, to ensure that the so-called traditional SIFIDE remains in place from 2026 onward and - why not - consider possible monetization for taxpayers within the scope of Pillar Two.

In parallel with the SB and as part of initiatives to improve access to housing, changes to VAT, Real Estate Transfer Tax, and Personal Income Tax have also been announced. Their actual impact is not yet known, but we are certain it will not be innocuous for the market or for the SB.

Finally, the changes proposed to PIT brackets and rates will result in an estimated € 111 million reduction in tax revenue, which can be seen as a welcome easing of the tax burden on some families.

We will see what the committee-stage debate adds to this Budget **which, being tax free, promotes tax stability, while we await with greater expectation the standalone legislative initiatives that may emerge** and could positively impact the competitiveness of the national economy.



# Personal Income Tax (PIT)

## Measures of the 2026 State Budget Law Proposal

### General rates

It is proposed that the thresholds of the progressive PIT rate bands be updated by 3.51%, through application of the automatic mechanism provided for in the legislation.

It is also proposed to reduce the rates for the 2<sup>nd</sup> to the 5<sup>th</sup> bands be reduced by 0.3 percentage points.

Accordingly, the general rate table of rates will be as follows:

Taxable Income (€)	Rate	Deduction (€)
Up to 8,342	12.50%	0,00
Above 8,342 up to 12,587	15.70%	266,94
Above 12,587 up to 17,838	21.20%	959,26
Above 17,838 up to 23,089	24.10%	1.476,45
Above 23,089 up to 29,397	31.10%	3.092,77
Above 29,397 up to 43,090	34.90%	4.209,94
Above 43,090 up to 46,566	43.10%	7.743,27
Above 46,566 up to 86,634	44.60%	8.441,48
Above 86,634	48.00%	11.387,17

### Minimum subsistence level

It is proposed to update the reference value of the minimum subsistence threshold, level, so as to keep pace with the increase in the guaranteed minimum monthly remuneration wage (RMMG).



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## Beyond the State Budget, what other measures are on the horizon?

### Housing

Within the scope of initiatives aimed at improving access to housing, the following amendments are being considered:

- increase in the cap on the PIT deduction relating to rental expenses to € 900 in 2026 and € 1,000 in 2027;
- reduction from 25% to 10% of the PIT rate applicable to rental income from residential rental agreements with moderate rents;
- exemption from PIT on capital gains, provided the sale proceeds are reinvested in properties intended for letting at moderate rent levels;
- “zero PIT” on rents charged at least 20% below the median for each municipality.

Despite the official announcement, the Bill has not yet been published and, at this stage, it is not possible to determine precisely the terms and conditions of its implementation.



# Corporate Income Tax (CIT)

## Measures of the 2026 State Budget Law Proposal

### Autonomous Taxation

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Vehicles approved under the “Euro 6e-bis” emissions standard with official emissions below 80 gCO<sub>2</sub>/km will be included in the category of plug-in hybrid passenger cars (which are subject to autonomous taxation rates of 2.5%, 7.5% and 15%).



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**Beyond the State Budget,  
what other measures are  
on the horizon?**

## CIT Taxes

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It is proposed to reduce the standard Corporate Income Tax (CIT) rate by 1 percentage point, bringing it down to 19%. This will apply to tax years starting in 2026.

It is also proposed that, in the two subsequent years, the standard CIT rate be reduced by 1 percentage point, to 18% in 2027 and to 17% in 2028.

It is proposed that SMEs and Small Mid Caps shall be subject to CIT at a rate of 15%, applicable to the first € 50,000 of taxable profit.



# Indirect Taxes

## Measures of the 2026 State Budget Law Proposal

### VAT

#### Reduced rate

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Operations to transform olives into olive oil will benefit from the reduced rate.

### IUC

#### Circulation Tax

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The additional to the single vehicle tax (Adicional ao IUC – Imposto Único de Circulação) will remain in force.

### Excise Duties

#### Excise duty on alcoholic beverages and on non-alcoholic beverages with added sugar (IABA)

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The reduced IABA rate (applying only 25% of the tax) applicable to liqueurs and “crème de”, to distilled spirits and fruit spirits (in certain categories and with specific characteristics) is extended until 31 December 2026, provided they are manufactured exclusively from strawberry tree fruit and produced and distilled in the municipalities already provided for in the legislation in force.

### ISV

#### Vehicle Tax

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Passenger cars equipped with plug-in hybrid engines, whose battery can be charged from the electricity grid and that have a minimum electric-mode range of 50 km, will no longer be taxed under the standard regime and will instead be taxed at an intermediate rate of 25%, provided they have official emissions below 80 gCO<sub>2</sub>/km when type-approved under the “Euro 6e-bis” emissions standard.

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## Beyond the State Budget, what other measures are on the horizon?

### VAT Group

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The Government has approved, in the Council of Ministers, a Draft Law to implement a VAT Group regime in Portugal. If approved by the Assembly of the Republic, this measure will enter into force on 1 July 2026.

This initiative represents a significant step forward in the tax management of corporate groups, by allowing the consolidation of VAT balances between companies with a financial link, contributing to greater administrative efficiency and improved liquidity.

In summary, the VAT Group regime that will apply in Portugal will have the following characteristics:

- companies that have a financial link may form a VAT group. Such a link is considered to exist when the parent company holds, directly or indirectly, at least 75% of the capital of other entities, provided that this holding grants it more than 50% of the voting rights;
- the controlling relationship must have existed for at least one year;
- each member of the VAT group must calculate the tax individually and submit its own VAT return;

- the VAT payable by or refundable to the group is calculated by the parent company based on the sum of the amounts credited or owed in each of the VAT returns submitted by the group members. These amounts must be included by the parent company in a consolidated tax return to be submitted monthly;
- participation in the regime is optional but requires remaining within it for a minimum period of three years.

### VAT – Housing

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Within the scope of initiatives aimed at improving access to housing, it is being considered to apply the reduced VAT rate to the construction of homes for sale up to € 648.000, or for letting with rents up to € 2.300.

Despite the official announcement, the Bill has not yet been published and, at this stage, it is not possible to determine precisely the terms and conditions of its implementation.

# Real Estate Taxes

## Measures of the 2026 State Budget Law Proposal

### IMT

#### Real Estate Transfer Tax

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##### **Determination of the IMT rate for the transfer of residential urban properties.**

The brackets for determining the IMT rate applicable to the transfer of urban properties, or individual units of urban properties, intended exclusively for housing, are updated by 2%.

As a result of this change, in the case of the acquisition of an urban property or an individual unit of an urban property intended exclusively as the buyer's own permanent residence, IMT is only payable if the value on which the tax is levied exceeds € 106,346 (previously € 104,261).

In the case of a first acquisition of an own permanent residence by young people up to the age of 35, IMT is only payable if the value on which the tax is levied exceeds € 330,539 (previously € 324,058).

#### Exemption from IMT, Stamp Tax and fees in the case of transfers of rural properties

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An exemption from IMT and Stamp Tax is provided for the transfers of contiguous or adjoining rural properties, irrespective of their economic use, when intended for land consolidation operations.

This exemption is subject to prior recognition before the transfer, upon application by the interested parties to the competent authorities for decision.

An exemption from fees is also provided in respect of all acts and contracts necessary to carry out the said land consolidation operations, as well as the registration of all rights and encumbrances affecting the new rural properties resulting therefrom.

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## Beyond the State Budget, what other measures are on the horizon?

### Real Estate Transfer Tax - Additional Real Estate Tax - Housing

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Within the scope of initiatives aimed at improving access to housing, the following are envisaged:

- an increase in IMT on the purchase of residential properties by individuals who are not resident in Portugal, excluding emigrants;
- exemption from AIMI for residential properties that are leased for rents of up to € 2,300.

Despite the official announcement, the Bill has not yet been published and, at this stage, it is not possible to determine precisely the terms and conditions of its implementation.





# Tax Benefits

## Measures of the 2026 State Budget Law Proposal

### **PIT and Social Security – Productivity and performance bonuses, profit-sharing and year-end gratuities, paid voluntarily and not on a regular basis**

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It is proposed to extend the benefit relating to productivity and performance bonuses, profit-sharing and year-end gratuities, paid voluntarily and not of a regular nature.

This benefit provides for an exemption from PIT and an exclusion from Social Security contributions, up to a limit of 6% of annual base remuneration, on amounts paid in 2026 to employees or members of statutory bodies by way of productivity or performance bonuses, profit-sharing and year-end gratuities, provided they are paid voluntarily and not on a regular basis.

This exemption only applies if the employer, in 2026, has implemented a pay rise eligible for the purposes of the wage valorisation tax incentive.

Where applicable, express reference to compliance with these conditions must be included in the annual income statement to be delivered to the employee by the employer.

The withholding tax rate to be applied to these amounts is that corresponding to the monthly employment income for the month in which the payment is made or made available.

### **CIT – Tax incentive for wage increase**

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The reference rate for meeting the two requirements for increasing annual base remuneration is reduced from 4.7% to 4.6%.

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## Extension

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The following tax benefits provided for in the Tax Benefits Statute (EBF) are extended until 31 December 2026:

- deductions for social impact bond partnerships (art. 19);
- external loans and rentals under leases of imported equipment (art. 28);
- financial services of public entities (art. 29);
- swaps and loans from non-resident financial institutions (art. 30);
- deposits of non-resident credit institutions (art. 31);
- repo operations with non-resident financial institutions (art. 32-C);
- managing entities of designations of origin and geographical indications (art. 52);
- managing entities of integrated management systems for specific waste streams (art. 53);
- sports, cultural and recreational clubs (art. 54);
- associations and confederations (art. 55);
- tax incentives for forestry activity (art. 59-D);
- forest management entities and forest management units (art. 59-G);
- deduction for the purposes of determining companies' taxable profit (art. 62);
- deductions from personal income tax liability (art. 63);
- value added tax – gratuitous supplies of goods and services (art. 64);



# Tax Justice



## Beyond the State Budget, what other measures are on the horizon?

The report of the Commission for the Review of Tax Proceedings and Procedure and of Taxpayers' Guarantees includes proposals for legislative amendments designed to promote greater speed, simplicity, and efficiency in tax litigation.

### Time limitation of tax debts

It is proposed that tax debts shall become time-barred once 20 years have elapsed from the initial date of the limitation period, regardless of any interruptive or suspensive events that may occur.

### Compensatory interest

It is proposed that entitlement to compensatory interest shall depend on the existence of an error not attributable to the taxpayer, removing the need to demonstrate the existence of an error attributable to the Tax Administration.

It is further clarified that an error contained in returns filed by the taxpayer will be attributable to the Tax Administration whenever the taxpayer has followed any written guidance from the Tax Administration or where the Tax Administration's IT system does not allow the taxpayer to complete that return correctly



Ex officio review regime

It is proposed that taxpayers may request the ex officio review of tax assessment acts within four years on the basis of any illegality, without the need for there to be an error attributable to the Tax Administration.

Regime for challenging tacit rejection

In the event of presumed tacit rejection at the administrative stage, it is proposed that taxpayers may challenge that tacit rejection until they are notified of the decision in the tax procedure.

Time limits and electronic notifications

It is proposed to standardise the time limits for administrative, judicial, and tax arbitral claims:

Reaction period		
Means of reaction	Current regime	Commission's proposed regime
Judicial claim	3 months	4 months
Administrative claim	120 days	
Tax Arbitration	90 days	

It is also proposed that notifications sent to the taxpayers' electronic tax domicile (ViaCTT or single digital address) shall be deemed served on the 5th day after they are made available, irrespective of the tax procedure in which they occur.

Appeals in tax arbitration

It is proposed to introduce a review mechanism for arbitral decisions that have become final in the context of tax arbitration, permitting review within four years on any of the grounds provided for in the Code of Civil Procedure (notably where the arbitral decision is irreconcilable with a final decision of an international appellate body that is binding on the Portuguese State).

Mutual agreement procedure for the resolution of international tax disputes

It is proposed that the mutual agreement procedure (MAP) for the resolution of international tax disputes be regulated in the Tax Procedure and Process Code, with particular focus on the relationship between the taxpayer and the Tax Administration.

It is further proposed to establish the taxpayer's right to compensatory interest where implementation of the outcome reached under the MAP occurs beyond the prescribed time limit.

# Others

## Measures of the 2026 State Budget Law Proposal

### Levies

#### Audiovisual contribution

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The monthly amounts of the contribution are not updated.

#### Contribution on the banking sector

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Remains in force.

#### Solidarity surcharge on the banking sector

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Is repealed, following a recent decision of the Constitutional Court.

#### Contribution on the pharmaceutical industry

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Remains in force.

#### Extraordinary contribution on suppliers to the National Health Service medical devices industry

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Remains in force.

#### Extraordinary Contribution on the Energy Sector (CESE)

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Concessionaires carrying out natural gas transmission, distribution or underground storage activities cease to be subject to this contribution, aligning the regime with recent decisions of the Constitutional Court.

Assets used in operating the electricity transmission and distribution network, acquired from January 2026 in new condition, constructed, or to the extent they are expanded, also cease to be included in the CESE tax base.

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# Tax Compliance

## Valuation of inventories

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An exemption from this obligation applies to:

- All taxpayers, in respect of tax years starting on or after 1 January 2025.
- Taxpayers that are not required to maintain a perpetual inventory, in respect of tax years starting on or after 1 January 2026.



## Invoices in PDF

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Until 31 December 2026, invoices in PDF files are accepted and are deemed electronic invoices for all purposes under the applicable tax legislation.

## SAF-T (PT) accounting file

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The obligation to submit the file applies to periods from 2027 onwards, to be delivered in 2028 or in subsequent periods.





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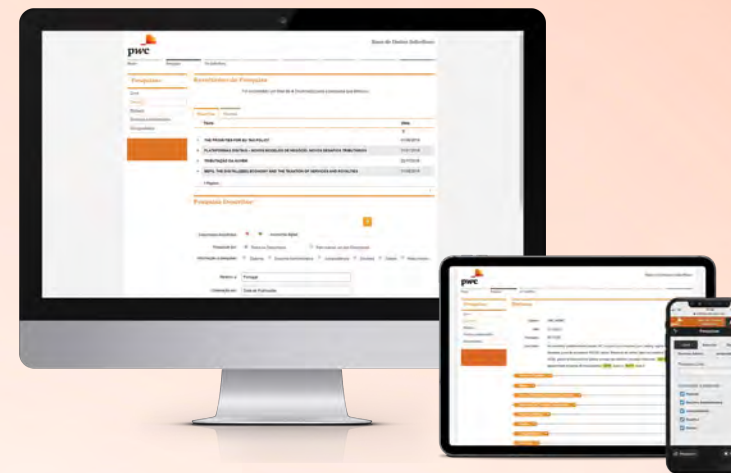
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