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Budget Bill 2018 | Analysis of Tax Conceito
Personal Income Tax (PIT)

Tax relief for taxpayers in intermediate tax bands

The largest and highly awaited amendment in terms of Personal Income Tax in 2018 is the return of the seven tax bands, which implies a tax relief for intermediate bands:

2017			2018		
Taxable income (euros)	Rates (percentage)		Taxable income (euros)	Rates (percentage)	
	Regular (A)	Average (B)		Regular (A)	Average (B)
Up to 7,091	14.50	14.500	Up to 7,091	14.50	14.50
From over 7,091 up to 20,261	28.50	23.600	From over 7,091 up to 10,700	23.00	17.367
From over 20,261 up to 40,522	37	30.300	From over 10,700 up to 20,261	28.50	22.621
From over 40,522 up to 80,640	45	37.613	From over 20,261 up to 25,000	35.00	24.967
Over 80,640	48	---	From over 25,000 up to 36,856	37.00	28.838
			From over 36,856 up to 80,640	45.00	37.613
---			Over 80,640	48.00	---

Extension of coefficient 1 in the simplified scheme for the calculation of taxable income

Until now, coefficient 1 included only income earned from services rendered by the partner to a company covered by the tax transparency scheme.

With the changes introduced by the Budget Bill 2018, this coefficient will now also include income earned from services rendered to a company, which for over 183 days of the tax period:

- The taxpayer has directly or indirectly owned at least 5% of its respective shares or voting rights;
- The taxpayer, his/her spouse or non-marital partner, have together directly or indirectly owned at least 25% of its respective shares or voting rights.



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Personal Income Tax (PIT) (Cont.)

Increased tax burden for self-employed persons participating in the simplified scheme for the determination of taxable income

Until now the taxable scheme for self-employed persons that have income from professional activities that are specifically foreseen in the table referred to in Article 151 or other services rendered except for accommodation and food and beverage activities, covered by the simplified scheme, corresponded to a percentage (coefficient) of their respective income - 75% or 35% depending on the activity. The difference represented the estimated costs for the performance of their activity.

With the changes introduced, and after the application of coefficients, the taxable income may additionally be increased by the positive difference between 15% of gross income from the services rendered foreseen on those paragraphs and the sum of the following amounts:

- a) € 4,104 (the specific deduction for self-employed work) or, when higher, the amounts actually supported with obligatory contributions for social security schemes connected with the activity that are not already deductible within the scope of that scheme;
- b) Staff costs and remunerations, wages or salaries communicated by the taxpayer to the Tax and Customs Authority;
- c) Rents paid for properties allocated to the business or professional activity that are included in invoices and other documents communicated to the Tax and Customs Authority;
- d) 1.5% of the taxable value of the properties allocated to the business or professional activity; or, in the case of properties allocated to hotel or local accommodation activities of which the taxpayer is the owner, usufructuary or superficiary, 4% of their respective taxable value;
- e) Other expenses with the acquisition of goods and services related with the activity that are included in invoices communicated to the Tax and Customs Authority pursuant to Decree-law No. 198/2012, of 24 August, or issued at the Finance Portal, pursuant to paragraph 1(a) of Article 115, namely expenses with power, electricity, water, transport and communications, rents, litigation, insurance, lease payments, professional associations or other similar fees, and travel and subsistence expenses of the taxpayers and their employees;
- f) Intra-Community imports or acquisitions of goods and services related with the activity.

Only 25% of the expenses and charges foreseen in paragraphs (c), (d) and (e) will be considered in case they are only partly allocated to the business and professional activity.

For effects of allocation to the business or professional activity of the aforementioned expenses and charges the taxpayer must identify:

- Invoices and other documents referred to in paragraphs (c) and (e) that include expenses and charges exclusively or partially related with the business or professional activity, using the Finance Portal;
- Properties exclusively or partially allocated to their business or professional activity, among which hotel or local accommodation allocation, using the Finance Portal;
- Intra-Community imports and acquisitions of goods made, specifically and exclusively, within the scope of the business or professional activity are indicated in Template 3 of the Income Tax return.

Evolution of the tax burden for self-employed persons participating in the simplified scheme for the determination of taxable income

Bearing in mind the evolution of the simplified scheme towards greater approximation to the taxation of actual income, based on the experience of the application of the new rules of the Personal Income Tax simplified scheme in 2018 and following the work conducted for the revision of the Corporate Income Tax simplified scheme that shall originate new rules effective as of 1 January 2019, the Government will ponder on those changes that are more adequate to the evolution of the Personal Income Tax simplified scheme.



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Personal Income Tax (PIT) (Cont.)

Elimination of tax benefits for education vouchers

Education vouchers will now be fully taxable. Until now, education vouchers attributed to dependants with ages between 7 and 25 destined for the payment of schools, educational establishments and other educational services, as well as expenses with textbooks, were exempted up to a limit of € 1,100 per dependant.



Tax deduction of rents paid for displaced students

Rents paid for the accommodation of under-25 dependants that attend an educational establishment and because of that have had to move away from the family home (more than 50 km) are now deductible from Personal Income Tax as education and training charges.

The component of the deduction regarding rents is limited to € 300 per year, and the overall amount of the deduction of € 800 is increased by € 200 when the difference is tied with rents.

Subsistence level

The minimum subsistence level has changed from € 8,500 to $1.5 \times 14 \times$ (Social Support Index amount), i.e., €8,847.72. However, the amount of the income net of taxes may not be lower than the annual amount of the minimum wage (€ 8,120, assuming the already announced increase to € 580).

Tax relief for the performance of public duties abroad

Part of the remuneration, in a percentage to be fixed, arising from the performance of public duties or commissions abroad at the service of the Portuguese State, shall be exempt from Personal Income Tax in the case of taxpayers who do not earn an exempted allowance or an allowance that is not subject to Personal Income Tax and has the same purpose.

This percentage shall be determined for each country where those functions are performed and shall take into account the parity of the purchasing power between Portugal and that country.

Tax deferral of suspended capital gains in the decommissioning of a business property

Currently, when a property is assigned to the performance of a business activity (e.g., local accommodation) that assignment is allocated to a capital gains generating fact, and those capital gains are suspended from taxation until the asset is sold or transferred to the taxpayer's private ownership. With the changes introduced by the Budget Bill 2018, the suspension of those capital gains is maintained in case the property is transferred to the taxpayer's private ownership but destined to obtain income (F category), and the deferral of the taxation of the capital gains is maintained while the property is thus assigned.

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Personal Income Tax (PIT) (Cont.)



Increased tax burden for company shares

Capital gains resulting from the disposal of parts of equity interests are now considered to be obtained on Portuguese soil and consequently subject to Personal Income Tax, when, at any moment during the previous 365 days, the amounts of those shares or rights resulted directly or indirectly, in over 50%, from immovable properties located in Portugal, with the exception of properties allocated to a business activity that does not consist in buying and selling properties.

This rule also applies to income earned by minors from their participation in shows or other cultural activities.

Option for the aggregation of property income earned by non-residents

It is now possible for residents in other member-states of the European Union to obtain property income and be subject to the general Personal Income Tax rates.

Legislative authorisation regarding VAT deduction

The Government is authorised to change the scope of input VAT deduction in order to extend it to VAT incurred with the acquisition of shared mobility services, such as bike sharing and car sharing.

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Pensions



Pensions to increase in 2018

Similarly to what had already happened in 2017, pensions will have an extraordinary update next year. In August 2018, there will be an extraordinary increase of € 10 per pensioner that earns 1.5 times or less the Social Benefits Index in force on that date considering the overall amount of the pensions he/she is entitled to.

However, pensioners that have at least one pension whose amount had been updated between 2011 and 2015 will only receive an increase of € 6 in 2018.

To calculate these updates, the value of the annual legal update carried out in January 2018 shall be considered.

This update will comprehend disability, old-age and survivor pensions paid by Social Security, and retirement and survivor pensions within the scope of the converging social security scheme paid by CGA, I.P.

Pensioners engaged in the performance of public duties

Disability or old-age pensioners engaged in the performance of public duties will now be entitled to statutory sick pay.

Thus, the rate of contributions applicable to disability pensioners engaged in the performance of public duties is 29.6%, divided into 20.4% payable by the employer and 9.2% payable by the employee.

In the case of old-age pensioners engaged in the performance of public duties, the contribution rate is 25.3%, divided into 17.5% payable by the employer and 7.8% payable by the employee.