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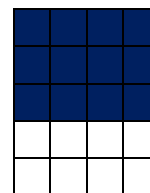
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■ business matters



by João Gomes

features@algarveresident.com

João Gomes is Senior Manager of the Moneris Group

Reduction of tax benefits during 2011

The Portuguese tax system is going through a process of major and structural changes. In fact, given the difficulties the economy is presently enduring and the financial situation of the country, the State Budget approved for the year 2011 contains a series of measures which tend to penalise most of the economic agents, either by reducing any available tax benefits or by increasing the tax burden hereafter.

In this article, *Moneris* sets out and succinctly analyses some of the main changes introduced in our tax system as a result of applying this law, in particular with regard to Personal Income Tax (IRS) and Corporate Income Tax (IRC).

We have focussed our attention on those amendments which we assume may have more impact to the foreign investor in Portugal.

Personal Income Tax

- The general tax rates of IRS now go from 11.5% (for taxable income of up to €4,898) to as much as 46.5% (for taxable income greater than €153,300). Previously the

lower end of the general tax rates was at 11.08%, with a maximum rate of 45.88%.

- The income brackets subject to taxation have been increased by 2.2%.
- Significant limitations have been introduced to deductions of health expenses, education and training costs, home investments and properties expenses (for tax taxable income greater than €66,405, the limit is now €1,100).

Corporate Income Tax

- The exemption regime for profits distributed by entities resident in Portugal to entities resident in another EU Member State or the European Economic Area (EEA) ceases to apply to shareholdings lower than 10% of share capital.
- On the other hand, entities that directly hold a shareholding of less than 10% of share capital of the distributing company cease to benefit from the regime of economic double taxation on distributed profits.
- The new budget law withdraws the regime of partial elimination of economic double taxation. Therefore dividends from subsidiaries that do not meet the

requirements for application of full deduction shall be taxed in full (before the taxation was set at 50%).

- Autonomous taxation at the rate of 10% shall apply to expenses incurred by corporate taxpayers related to passenger vehicles or mixed vehicles, when the purchase price does not exceed the limit fiscally acceptable (i.e. 25.000 Euros). This tax rate rises to 20% if the purchase price of such vehicles is greater than the fiscally-accepted limit.
- Finally, all rates of autonomous taxation are increased by 10%, in relation to taxpayers who record a tax loss in the period.

In light of such tax changes and the trend which has been established for continuously increasing the tax burden, which the application of the "Troika MoU" will only lay emphasis on, we must draw your attention to the need for monitoring the various tax rules and regulations and how they may affect your personal or business income.

This is where your tax advisor or consultant may help - to enable you to plan in anticipation and hence to minimise your taxes.



■ Article written by João Gomes, Senior Manager of Moneris Group. Email j.gomes@moneris.pt