



State Budget Law for 2025 enters into force | Key tax measures

On December 31st, 2024, the State Budget Law for 2025 ("State Budget 2025") was published – Law No. 45-A/2024, of December 31st -, which entered into force on January 1st, 2025.

Following our previous updater on the subject, we list below the main tax measures introduced by the State Budget 2025, highlighting the most relevant differences between the State Budget 2025 and the respective State Budget Proposal presented by the Government in October 2024 ("Proposal").

Personal Income Tax ("IRS")

IRS for young workers ("IRS jovem")

With effect from 2025, the IRS jovem will cover income from categories A (employment work) and B (self-employed activities) obtained by taxpayers (non-dependents), who are up to 35 years of age, during the first 10 years where income is obtained.

As provided for in the Proposal, the income obtained by taxpayers covered by this regime benefits from the following exemptions:

- 100% exemption in the 1st year of earning income;
- 75% exemption from the 2nd to the 4th year of earning income;
- 50% exemption from the 5th to the 7th year of earning income;
- 25% exemption from the 8th to the 10th year of earning income.

However, a maximum annual IRS exemption ceiling of €28,737.50 was established (corresponding to 55 times the value of the IAS, which, in the year 2025, will amount to €522.20 - as confirmed by Ordinance No. 6-B/2025/1, of 6 January).

Taxpayers who benefit from i) the non-habitual resident ("NHR") regime, ii) the tax incentive for scientific research and innovation ("IFICI") or iii) the Regressar program will not be able to benefit from this regime.

The income exempt under this regime contributes to the determination of the tax rate applicable to the other income earned by the taxpayer (exemption with progressivity).

Tax rates and brackets

In line with the Proposal, all taxable income brackets are updated, at 4.62%, as shown in the table below:

Taxable income (€)	Rate	Deductible amount (€)
Up to 8.059	13,00%	0
From 8.059 to 12.160	16,50%	282,07
From 12.160 to 17.233	22,00%	950,91
From 17.233 to 22.306	25,00%	1.467,91
From 22.306 to 28.400	32,00%	3.029,38
From 28.400 to 41.629	35,50%	4.023,14
From 41.629 to 44.987	43,50%	7.353,76
From 44.987 to 83.696	45,00%	8.028,38
From 83.696	48,00%	10.539,00

Meal allowances

The State Budget 2025 confirms that meal allowances, when granted through meal vouchers (which includes cards), will be subject to taxation only when they exceed the amount of €10.20 per day (in 2024 the limit was €9.60 per day).

Specific deduction in Categories A and H

The amount of the specific deduction applicable to categories A and H - currently set at € 4,104.00, - is updated to 8.54 times the IAS. According to the value of the IAS approved for the year 2025 by Ordinance No. 6-B/2025/1, of 6 January, the amount of the specific deduction will amount, this year, to € 4,460.02.

Productivity bonuses

The State Budget 2025 confirms the Proposal by establishing an IRS exemption applicable to productivity bonuses. Thus, as of this year, an exemption from IRS and Social Security will apply, up to a limit of 6% of the employee's annual base remuneration, to the amounts paid to workers/members of statutory bodies as productivity bonuses, performance, profit sharing and balance sheet bonuses.

This exemption depends on the fact that, in 2025, the employer is eligible for the tax incentive for wage increase, provided for in article 19-B of the EBF (i.e., having made an average salary increase per employee of at least 4.7%).

Withholding taxes on category A income

State Budget 25 determines that category A income payers, who withhold income subject to the IRS Jovem regime, must apply the withholding rate that would be applicable to all income, but only to the part of income that is not exempt under this regime.

In addition, the State Budget 2025 confirms that remuneration for overtime work obtained by residents is subject to a rate corresponding to 50% of the normal rate applicable to remuneration obtained in that month.

Regarding withholding tax on income obtained by non-residents from overtime, the 25% withholding tax will apply to working time over 100 hours.

Withholding taxes on category B income

The reduction of the IRS withholding tax rate - from 25% to 23% - applicable to income arising from professional activities provided for in the table referred to in article 151 of the IRS Code is confirmed.

Autonomous taxation

The State Budget 2025 provides for the update - from € 20,000 to € 30,000 - of the cost of acquisition of passenger or mixed vehicles, from which the expenses borne by taxpayers with organized accounting within the scope of a business or professional activity, are now subject to autonomous taxation.

Also, the expenses with shows are no longer considered representation expenses, for the purposes of applying the autonomous taxation rates.

Payments on account

The reduction of the advance payments ("pagamentos por conta") due by holders of category B income is confirmed, corresponding now to 65% of the amount resulting from the application of the formula in force (so far, 76.5%).

Tax incentive for the recapitalization of companies

The tax incentive for the recapitalisation of companies is amended, and IRS taxpayers who make capital contributions in cash in favour of companies in which they hold

shareholdings will be able to deduct up to 20% of these contributions from (i) the gross amount of profits made available by that company or (ii) the balance between capital gains and losses (in the case of sale of this shareholding).

Corporate Income Tax ("IRC")

Rates

The State Budget 2025 confirms the reduction of the standard corporate income tax rate, from 21% to 20%.

With reference to small and medium-sized enterprises ("SMEs") and Small Mid Cap, the reduction of the IRS rate to 16% (currently, 17%) on the first € 50,000 of taxable income is also confirmed.

Autonomous taxation

There is a general reduction in autonomous tax rates (by 0.5%), as well as a general increase in the limits on the cost of acquiring vehicles (by € 10,000 in each category).

Also, the expenses with shows are no longer considered representation expenses, for the purposes of applying the autonomous taxation rates.

Health or health insurance expenses

The State Budget 2025 determines that expenses incurred with health or health insurance for the benefit of workers, retirees or their family members, will now be considered at 120% of their value.

Tax incentive for wage appreciation

The proposals to amend the tax incentive for wage enhancement (article 19-B of the EBF) are confirmed. In particular:

- this incentive will apply when there is an increase in the average annual base salary per employee of at least 4.7% (so far, 5%);
- the costs of salary increases will now be increased by 200% (so far, 150%);
- the maximum annual amount per employee to which this incentive applies is now five times the RMMG (so far, 4 times);
- This incentive is no longer dependent on the non-increase in the company's salary range.

Tax incentive for the recapitalization of companies

The State Budget 2025 establishes changes to the tax incentive for the recapitalization of companies, with companies covered by the incentive being able to deduct, from the amount of net increases in equity, an amount corresponding to the 12-month Euribor rate plus a spread of 2%.

Corporate Income Tax regime applicable to entities licensed in the Madeira Free Trade Zone

Although this does not result from the proposal initially presented by the Government, the 2025 State Budget extends, until December 31, 2026 (previously, until December 31, 2024), the possibility of applying the IRC rate reduction regime (5%) for entities licensed in the Madeira Free Trade Zone.

Value Added Tax ("VAT")

Right to deduct VAT on bicycle expenses

The State Budget 2025 clarifies that VAT incurred on expenses related to bicycles (i.e., bicycles) is now deductible. It should be noted that this legislative change is interpretative in nature.

Exemptions

The VAT exemption applicable to the transfer of fertilisers, soil improvers and other products for livestock, poultry and other animal feed is extended until 31 December 2025. This exemption grants the right to deduct input tax.

VAT refund

Entities that own forest firefighters, integrated in the Rural Fire Management System (“Sistema de Gestão Integrada de Fogos Rurais”), will also be able to benefit from the refund of an amount equivalent to VAT (when they cannot exercise the right to deduct this tax).

Reduced VAT rates

Although this is not included in the Proposal, the State Budget 2020 extends the application of a reduced VAT rate (6% on the mainland; 5% in Madeira and 4% in the Azores) to the following goods / services:

- equipment for rescue operations acquired by the Regional Civil Protection Service, IP-RAM, the Regional Civil Protection and Fire Service of the Azores, municipalities and intermunicipal entities;
- bullfighting shows;
- food products intended for infants and young children, including transition formulas, as well as food for special medical purposes and total diet replacement for weight control.

Reduced rates - Legislative authorisation

The proposal for legislative authorization in favor of the Government to approve the application of a reduced VAT rate (6% on the mainland; 5% in Madeira and 4% in the Azores) to contracts for the construction or rehabilitation of residential properties is not included in the State Budget 2025. Thus, such works continue, in 2025, to be taxed at the standard VAT rate, unless they meet the requirements to benefit from a reduced tax rate under another provision of VAT legislation (such as the rate reductions provided for urban rehabilitation activities).

Municipal Tax on Real Estate Transfer (“IMT”)

The 2025 State Budget confirms the Proposal, updating by 2.3% the brackets provided for the determination of the IMT rate applicable to the transfer of buildings / autonomous fractions of urban buildings intended exclusively for housing.

The updating of the brackets leads to a generalized reduction in the tax to be paid on these acquisitions.

Reporting obligations

Invoices

During the year 2025, invoices in PDF format will continue to be accepted, and they will be treated as electronic invoices for tax purposes.

SAF-T file (PT)

The obligation to submit the SAF-T (PT) accounting file is postponed again, and this obligation will come into force with reference to the year 2026 and beyond.

For any questions or concerns regarding the 2025 State Budget, please do not hesitate to contact the Tax team at pbb – Sociedade de Advogados, SP, RL.

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