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PUBLIC AFFAIRS

Portuguese Government submits State Budget proposal for 2024

The Government increases the national minimum wage and lower taxes for families and companies while promoting housing solutions.

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In a year marked by **public contestation** - professionals from different sectors, such as doctors and teachers, have organized strikes and several groups have carried out protests for the climate and housing conditions, among others - and **political cases** - which began by the end of last year, with the resignations of several members of Government,, including former Minister of the Infrastructures, Pedro Nuno Santos - the Portuguese Government submitted its **State Budget proposal for 2024**. Discussions will follow in generality and in the specific committees until the **final global vote on the 29th November**.

Questioned about whether the government will be open to contributions from other parties during the discussion phase, the **Minister of Finance stated that there is openness to active contributions that improve the political responses to the country's needs**. With absolute majority in the Parliament, the socialists should be able to keep their key intentions in the final document.

The **Portuguese economy** remains a hostage of rising inflation due to the war in Ukraine and the increasing interest rates, while, at the same time, and because of the extra taxes revenue, Portugal will have a budget surplus of 0,8% of GDP - for only the second time in its history.

Bearing this in mind, the Prime Minister, António Costa, and the Ministry of Finance, Fernando Medina, submitted a proposal that aims to **raise income via wages and pensions** more than anticipated, while adjusting the income tax (IRS) brackets to ensure that families don't pay additional taxes with rising incomes.

Three days before presenting this first Budget proposal, the Portuguese Government signed with the Social Partners (Business Associations and Unions) a **revision to the medium term agreement regarding Income, Salaries and Competitiveness** that states the increase of the National Minimum Wage to 820€ in 2024 (10€ more than predicted) and recommends the private sector raise wages by around 5%. This deal also focuses on housing conditions, simplifying the licensing and construction of new houses and promoting housing solutions for workers offered by companies. It was not signed by the General Confederation of the Portuguese Workers (CGTP), affiliated to the Communist Party, and the Confederation for the Portuguese Business (CIP), the biggest one representing the employers, that presented proposals of its own.

Fernando Medina says this budget has **three fundamental axes**: **boosting income, promoting public and private investment and protecting the future**, and states that the main goal is to help families in need and also to alleviate the middle class.

Medina predicts an **economic growth of 2,2% for 2023 and 1,5% next year**. This means that, **in the Government's view**, Portugal will **grow above its Euro Area partners** – IMF has just predicted a 1,2% growth for the Euro Area in 2024; OECD predicts 0,6%. The Council for Public Finance, an independent body that evaluates Portuguese macroeconomic policy, **expects a GDP growth of 1,6% in 2024**.

According to the Government, in 2024, **the budget surplus will lower to 0,2% of GDP** (from a predicted 0,8% in the current year) and **inflation will decrease to 2,9%** (from 4,6% in 2023). **The unemployment rate** should stabilize at 6,7% in 2024, the same rate predicted for this year.

Public debt should fall, for the first time in many years, to below 100% of the GDP - the Government expects this ratio to be at 98,9% in 2024. At the same time, the State will spend 7,1 billion euros to pay debt interest in the coming year, 8,7% more than in 2023.

About a third of the projected investment budget will be covered by European funds, so the Portuguese State will only cover 67% of the investment for 2024.

OPPOSITION CRITICIZES LACK OF AMBITION

There's a common consensus among the opposition parties, with all of them considering that the State Budget doesn't respond to the needs of the country.

PSD, the biggest opposition party, through its parliamentary leader, Joaquim Miranda Sarmento, focused criticism on the alleged high tax burden presented by the Executive led by António Costa. He also said that the execution of public investment is scarce in Portugal and that, usually, does not capture the due attention of the Socialist Party. Sarmento also noted that PSD had already announced proposals directed to young people (IRS Jovem), stating that the government's proposal seems "limited" to him.

Chega, the third parliamentary force and far-right party, argued that "there's no idea of development, no idea of a tax relief structure, nor an idea of growth" in the State Budget.

The Liberal Party (IL) already announced that the parliamentary group will vote against the Budget Proposal, which they consider does not promote a structural reform of public services and does not reduce the tax burden.

The Left Block also criticized the Government's proposal, considering that it is not up to the country's needs and that the Government could have gone further in supporting families.

As IL, the **Communist Party** also said that it will vote against the Budget, which considers that it worsens the lives of pensioners and retirees.

PAN states that the reducing tax burden is "an illusion", since the rise in incomes and the updating of IRS brackets are below inflation. The party also criticized the Budget for supporting fossil fuels investments, accusing the proposal of not being green.

Rui Tavares, Livre's single MP, stated that the measures presented by the Government, especially in regard to the escalation of interest rates are poorly designed. Livre focuses its criticism on the alleged lack of government responses to the country's housing emergency, even suggesting the creation of an emergency fund financed by the sales of luxury real estate "to non-taxpayer and non-resident millionaires looking for Portugal".

Below we give an overview of the main measures for companies and the main proposals for families and households.

MEASURES AND INCENTIVES FOR COMPANIES

Companies Capitalization Incentive (ICE), which merges the current Conventional Return on Equity (RCSS) and the Deduction for Retained and Reinvested Profits (DLRR) mechanisms, and which will allow an annual deduction according to the 12-month Euribor rate, along with a spread of 1,5pp (2pp in the cases of SMs or Small Mid Caps). This incentive will benefit from an increase of 50% in 2024, 30% in 2025 and 20% in 2026.

Creation of a new fund for structural investments to be executed after 2026, after the PRR. This fund starts in 2024 with an allocation of 2,000 million euros and will aim to answer the pressing needs in several areas, such as social, climate transition, health and transport. This fund will be financed by the budget surplus and revenues from the end of concessions.

Corporate tax (IRC) for smaller startups drops to 12.5%: Startups (emerging companies) that are considered small or medium-sized companies or small-medium capitalization companies (small mid caps) will benefit from a cut in the IRC rate that applies to the first 50 thousand euros of the tax base. Instead of the current 17%, the government is proposing a drop to 12.5%.

Deepening the tax regime for Stock Options. the government promotes the extension of the tax regime applicable to stock options, with the following measures:

- Extends the applicability of the regime to members of governing bodies;
- Extension to entities that have created the option plan in the year of its constitution / first year of activity;
- Clarification that the regime is also applicable when the plan of options or rights of an equivalent nature are created by other entities, with whom the employer of the employees has a domain, group or simple participation relationship;

- Amendment of the rules in cases of loss of resident status in Portugal (exit tax), through an exemption of up to 20 IAS and the change in the taxable amount, which is based on the time of exercise of the option or right.

Tax incentives for Scientific Research and Innovation: The Government intends to create a new tax incentive for scientific research and innovation (IFICI), aimed at attracting and retaining highly qualified professionals for the fields of scientific research, investment and business development.

The incentive will be applied to researchers and highly qualified workers who, having not been tax residents in the last 5 years in Portugal, have become residents and earn income that falls within:

- Careers of higher education and scientific research teachers, including scientific employment in entities, structures and networks dedicated to the production, dissemination and transmission of knowledge, integrated into the national system of science and technology;
- Skilled jobs under contractual investment benefits;
- Research and development jobs, of workers with doctoral degrees, within the scope of SIFIDE.

MEASURES AND INCENTIVES FOR FAMILIES

Income tax reduction for those with earnings until the fifth bracket.

Free kindergarten will be extended to cover about 120 thousand children.

Retirement pensions will rise 6,2%, above the inflation rate.

Child benefit (abono de família) **will increase 22€ in every , around 25% to 30%;**

Youngsters between 18 and 26 years will benefit from **an increase in their income tax (IRS) exemption**: in the first year of this regimen, the discount will reach 100% and in the second year, 75%. The 3rd and 4th years will see a 50% reduction and the last year will have a 25% reduction.

Youngsters will benefit from a **Salary Reimbursement for Education**, which will return the expenses associated with higher education, namely Bachelor's and Master's degrees.

Free public transport passes will be extended to every person up to the age of 23.

MEASURES FOR HOUSING

Creation of a regime that allows families to receive a **proposal to guarantee a fixed rate of housing credit for two years;**

Those who have applied for a home loan will be able to **amortize the debt without any associated cost;**

Mortgage subsidy for families up to the sixth bracket of the IRS with an effort rate above 35%;

Investment in various programs for affordable rent presented on the "Mais Habitação" package, and on the refurbishment of the existing public housing stock.

Subsidy for rent payment, up to 200€ for families whose effort rate for paying the rent is equal to or greater than 35% of income.

Creation of the "National Emergency and Temporary Housing Assistance Program" which foresees attributing 1.000 houses in 2024.

Tax incentives for companies providing housing for employees, with income tax exemption for workers and social contributions exemption for companies.

OTHER FIGURES

Tax revenue in 2024 is expected to rise to €60.130 million, 4,8% more compared with 2023.

Public debt will fall to less than 100% of GDP in 2024. The State will spend 7,1 billion euros to pay debt interest, 8,7% more than in 2023.

The culture budget rises 5 million euros, to 509.4 million euros, about 10% compared to 2023.

The salary increases for the public servants of at least 52,63€ will cost 1538 million euros.

The State Budget for 2024 increases of 1,2 billion euros in the **overall available amount for the Health sector**.

The basic and secondary education sector is expected to have around €7,3 billion provided for in the draft State Budget, 5,6% more than in 2023.

MEASURES ENDING IN 2023

Extraordinary profits tax for energy and food distribution companies: Finance Minister Fernando Medina confirmed the end of the extraordinary and temporary contribution of 33 per cent levied on energy and food distribution companies that have recorded a 20 per cent increase on their average taxable profits over the previous four years.

Zero VAT in basic food products: The measure which came into force on 18th April to help families in the face of high inflation is due to end on 31 December this year. The Government will replace it by strengthening social benefits for families with higher needs.

The non-habitual resident regime: the Portuguese state will stop accepting new registrations in the special tax regime for non-habitual residents (pensioners are taxed with a 10% IRS and workers are taxed at 20 per cent) for those who become taxpayers in Portugal in 2024.

ADDITIONAL MEASURES FOR OTHER SECTORS

Support to the National Electricity System: The Government plans to transfer 366 million euros to the National Electricity System, to support customers in very high voltage, high voltage, medium voltage, special low voltage and normal low voltage exceeding 20.7 kVA.

New contribution to plastic bags: the Budget plans to create a contribution of 4 cents on the very light plastic bags used in the bulk sale of bakery items, fruit and vegetables.

Implementation of a new National Cybersecurity Strategy to strengthen cybersecurity in the supply chain of information and communication technology products and services, the development and integration of advanced technologies, the enhancement of cyber resilience in companies, and the increase of the population's cybersecurity skills, as well as the **operationalization of the Cybersecurity Emergency Planning Commission**.

The Government will provide **specialized training in cybersecurity** to approximately **10,000 specialized professionals in companies and the Public Administration**.

The Government will **clear the debt of CP,** the public company in the passenger rail transport, which will involve a total of 1.900 million euros.

Alcohol and tobacco special taxes will also increase in 2024: the Government expects to collect more 127 million euros in the Alcohol and Alcoholic Beverages Tax and an extra 177 million euros in the tobacco tax, which will translate to an increase of **15 to 30 cents in the packs of cigarettes in 2024**.

For more information:

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