



**“Deduções à Colecta”
“IRS” Tax Credits
in Portugal**

In the Portuguese Individual Income Tax Code (“IRS”), “*Deduções à Colecta*” (tax credits) are reductions to the gross tax due, reducing the assessment in accordance with the taxpayer's level of income. From gross taxation, Art.78º of the *CIRS* (Portuguese Personal Income Tax Code) allows for the following varieties of tax relief:

- a) Taxable persons and their dependents;
- b) Health costs;
- c) Costs of education and training;
- d) Alimony;
- e) Nursing homes;
- f) Housing;
- g) Persons with disabilities;
- h) Life insurance (disabled only);
- i) Health Insurance;
- j) International double taxation;
- k) Tax Benefits.

Forms of Tax Relief

There are three broad groupings of Tax Relief.

1) *Deduções Específicas* (allowances)

Deduções Específicas correspond to upper limit amounts allotted to given kinds of income. For example, €4 104 is the standard maximum allowance for Pension income (Category H).



2) *Desagravamento Fiscal* (exclusions from taxation)

The expression “*Desagravamento Fiscal*” has several meanings and uses. On the one hand, there is a broad, generic usage, generally referring to fiscal policy surrounding taxes cuts and concessions, often intended to stimulate economic activity.

In fiscal law, it can be used as a technical phrase describing a fixed percentage exclusion applied to certain categories of income in contrast to specific amount reductions (*Deduções Específicas*) commonly applied to other income sources.

The application of “*Desagravamento Fiscal*” is normally intended to mitigate underlying tax inequities, such as occurrences of underlying economic double taxation. Excluding the appropriate percentage, only the balance is reported on the “*IRS*” tax declaration. For example, for dividends received within the EU, one half is excluded and the other half reported on Annex J.

3) *Benefícios Fiscais* (tax benefits)

“*Benefícios Fiscais*” are considered exceptional measures put in place to protect or promote public interests that are considered more important than the tax revenues they replace (*EBF*, Art. 2, n°1). The majority of areas subject to this form of tax relief fall outside of Individual Income Tax Code (“*CIRS*”).

Tax Benefits can take any number forms: tax credits, exemptions, reductions, deductions, depreciation and accelerated depreciation along with other measures. This being the case, they need to be interpreted according to the purpose rather than their form. Although “*Desagravamentos Fiscais*” and “*Benefícios Fiscais*” can coincide in form, they remain quite different in nature. The former is usually intended to establish fiscal congruence and compatibility while the latter are tax breaks with social, economic, financial or other policy purposes. (*EBF*, Art. 4°, n° 1 & 2)



Categories of Income and Tax Relief

Beyond the areas mentioned initially, the following is a partial list of diverse forms of Tax Relief applicable within the IRS Code, these to different categories of income:

	<u><i>Dedução específica</i></u>	<u><i>Desagravamento fiscal</i></u>	<u><i>Benefício fiscal</i></u>
Category A			
Salaries	€4 104	10% up to €2 500	—
Category B			
Simplified Regime	—	5% - 90%	—
Royalties	—	50% (up to €10k)	—
Category E			
Dividends	—	50%	—
Category F			
Rental Income	maintenance & repairs	—	—
Category G			
Capital Gains: Real Estate	necessary expenses	50%	—
Category G			
Capital Gains: Investments	necessary expenses	—	—
Category H			
Pensions	€4 104	85%	—



Double Taxation Conventions

While above clarifications should prove useful when explaining the nature and purpose of different forms of tax relief within the Portuguese tax system, they become essential when struggling with the difficulties surrounding international *Conventions for the Avoidance of Double Taxation*. Differences in national fiscal legislation need to be reconciled in these agreements. This can be a challenging task when certain types of tax relief are different from others or non-existent from one set of fiscal laws to another. Assumptions can be misleading, particularly when certain terminology or concepts are absent in the other system. These problems can be compounded when national bias and interests further cloud interpretation.

Tax Break Summary

- 35% of family overheads (supermarkets, clothing, fuel, water, electricity, gas or other) up to a maximum of €250 per taxpayer;
- 15% of health expenditure, up to a maximum of €1,000;
- 30% of education expenses up to a maximum of €800;
- 15% of the cost of housing rent, up to a maximum of €502 or 15% of the costs of loan interest for housing, up to a maximum of €296;
- 25% of the cost of nursing homes, up to a maximum of €403.75 euros;
- 15% of invoiced VAT for catering and hospitality, hairdressing and repairs of automobiles and motorcycles, up to a maximum deductible of 250 euros.

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