

OCTOBER 2025

GUIDE

State Budget Law Proposal 2026

Measures impacting individuals and companies

Law Proposal 37/XVII/1



CUATRECASAS

Introduction

This guide to the State Budget Law Proposal 2026 ([Law Proposal 37/XVII/1](#)) (“**2026 State Budget Proposal**”) provides a clear and detailed overview of the main tax measures proposed by the Portuguese Government affecting both individuals and companies.

The proposal’s distinctive feature is the absence of substantial changes to tax regulations, which are being discussed in separate initiatives, including a reduction in the corporate income tax (“**CIT**”) rate, measures to enhance housing accessibility, the introduction of the VAT group scheme, and reforms to tax litigation procedures. Note that all these proposed initiatives remain subject to approval.

The 2026 State Budget Proposal is focused on extending (i) existing measures, such as updating the personal income tax (“**PIT**”) brackets and municipal property transfer tax (“**IMT**”) rates to reflect inflation and other indices; and (ii) the scope of the autonomous taxation (*tributação autónoma*) on plug-in hybrid vehicles.

The most noteworthy measures highlighted in this

guide include the extension of the PIT exemption and exclusion from Social Security for payments linked to productivity bonuses, performance bonuses, profit-sharing bonuses, and balance-sheet bonuses.

The proposal also seeks to curtail certain existing contributions and regimes, such as the extraordinary energy sector contribution, which will have a narrowed impact. The banking sector solidarity supplement is also set to be revoked.

This guide is not a full legal review. Rather, it is intended as an easy-to-use tool for companies to understand and benefit from the tax provisions and incentives introduced in the 2026 State Budget Proposal. For specific applications, in-depth analysis is advised.

Lisbon, October 17, 2025

Cuatrecasas Tax Team

1. Measures impacting people

General PIT rates

- > The threshold for the progressive PIT brackets will increase by 3.5%.
- > The rates for intermediate brackets, spanning from the second to the fifth bracket, will decrease by 0.3 percentage points.
- > Therefore, the updated PIT table will be as follows:

Taxable income (€)	Rate	Portion to be deducted (€)
Up to and including 8,342	12.50 p.p.	0.00
Over 8,342–12,587	15.70 p.p.	266.94
Over 12,587–17,838	21.20 p.p.	959.26
Over 17,838–23,089	24.10 p.p.	1,476.45
Over 23,089–29,397	31.10 p.p.	3,092.77
Over 29,397–43,090	34.90 p.p.	4,209.94
Over 43,090–46,566	43.10 p.p.	7,743.27
Over 46,566–86,634	44.60 p.p.	8,441.48
Over 86,634	48.00 p.p.	11,387.17

Minimum stocks

- > The reference value for minimum stocks must be adjusted to align with the changes in the Guaranteed Minimum Monthly Salary.

2. Measures impacting companies

Autonomous taxation

- The category of light passenger plug-in hybrid vehicles now includes those approved under the EURO 6E-BIS emissions standard with emissions of less than 80gCO₂/km.
- The autonomous levy rates will be as follows:
 - **2.5%** for vehicles with an acquisition cost below €37,500
 - **7.5%** for vehicles with an acquisition cost of more than €37,500 and less than €45,000
 - **15%** for vehicles with an acquisition cost of €45,000 or more.
- Unlike previous state budgets, this proposal has not introduced any provisions to prevent an increase in autonomous taxation for taxpayers reporting tax losses.

Tax benefits - Tax incentive for salary increases

- The proposal provides a minor reduction in the salary update rate required to qualify for the tax benefit, lowering it from the current rate of 4.7% to 4.6%.
- This percentage applies both to (i) the increase in a company's average annual basic salary, calculated at the end of the prior year; and (ii) the annual basic salary increase for employees earning the same as or less than the company's average annual salary at the end of the preceding year.

2. Measures impacting companies

Productivity and performance bonuses, profit-sharing, and balance-sheet bonuses

- The 2026 State Budget Proposal maintains the PIT and Social Security exemptions, subject to a limit of 6% of the annual basic salary. This applies to amounts paid or made available in 2026 to employees or corporate body members by employers on a voluntary and non-regular basis, specifically as productivity bonuses, performance bonuses, profit-sharing, and balance-sheet bonuses.
- Eligibility for this exemption requires the employer to have executed an eligible salary increase in 2026 for the purpose of applying the tax incentive for salary increases. The employer must explicitly declare compliance with this condition in the employee's annual tax return.
- Also, the PIT withholding rate applied will correspond to the rate applicable to the monthly employment income for the month in which the payment is made or becomes available.

2. Measures impacting companies

Tax benefit extensions

The following tax benefits have been extended until December 31, 2026:

Deductions related to social impact bond partnerships	19-A	External loans and rental income from imported equipment	28	Financial services of public entities	29	Swaps and loans from nonresident financial institutions	30
Deposits in nonresident credit institutions	31	Repo transactions with nonresident financial institutions	32-C	Management entities for designating denominations of origin and geographical indications	52	Management entities for managing specific waste streams	53
Sports, culture and recreational associations	54	Associations and confederations	55	Tax incentives for forestry activities	59-D	Forest management entities and units	59-G
Deductions from corporate taxable income - sponsorship	62	Deductions from PIT taxable income - sponsorship	63	VAT - goods and services supplied free of charge	64		

A review is scheduled in the tax benefits assessment framework to be conducted in 2026.

2. Measures impacting companies

Sectoral contributions

- The 2026 State Budget Proposal maintains the banking sector contribution, the pharmaceutical industry contribution, and the extraordinary contribution for suppliers of medical devices to the Portuguese National Health Service.
- It also preserves the extraordinary energy sector contribution, with the following notable changes:
 - The contribution no longer applies to natural gas transmission, distribution, and underground storage concessionaires.
 - The basis for calculating the contribution excludes assets involved in operating the electricity transmission and distribution networks. Instead, it solely considers investment expenses on tangible fixed assets purchased new, constructed, or expanded during tax periods beginning on or after January 1, 2026.
- It proposes to revoke the banking sector solidarity supplement.

2. Measures impacting companies

Reduced VAT rate on olive oil processing for olive oil

- Processing olives to make olive oil will now benefit from a reduced VAT rate of 6%.

Vehicle tax on passenger cars equipped with plug-in hybrid engines

- Passenger cars equipped with plug-in hybrid engines, capable of battery charging through the electricity grid and with a minimum electric range of 50 km, will no longer be taxed under the standard regime. Instead, vehicles with official emissions below 80 gCO₂/km and approved under the Euro 6e-bis emissions standard will be subject to a 25% intermediate tax rate.

Tobacco duty on nicotine pouches

- Nicotine pouches are now subject to tobacco duty at a rate of €0.065 per gram. However, they remain exempt if (i) imported as part of the personal luggage of travelers arriving from other countries or territories, up to 20 grams; and (ii) transported by individuals from other Member States for their personal use, also up to 20 grams.

Land reparceting incentive

- The 2026 State Budget Proposal exempts IMT and stamp duty on the transfer of rural properties required for the reparceting of contiguous or adjoining rural plots, regardless of their designated economic use. It also waives fees for (i) all acts and contracts necessary to execute reparceting operations, and (ii) the registration of all rights and encumbrances associated with the newly formed rural properties.

2. Measures impacting companies

Reporting obligations - Extension of regimes

Stock valuation

All taxpayers will be exempt from the stock valuation obligation for the tax period starting on or after January 1, 2025.

Also, taxpayers not required to maintain permanent stock records will be exempt from this obligation for the tax period starting on or after January 1, 2026.

PDF invoices

Until December 31, 2026, PDF invoices will remain valid and be recognized as electronic invoices for all purposes under tax legislation.

SAF-T file (PT) for accounting

Taxpayers will be required to submit the SAF-T (PT) accounting file starting in 2027, with submissions to be made in 2028 and subsequent years.



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