

TAX HIGHLIGHTS FROM THE 2026 STATE BUDGET BILL



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“UPDATING OF INCOME BRACKETS: THE INCOME BRACKETS HAVE BEEN UPDATED BY AROUND 3%, IN LINE WITH FORECAST INFLATION, WHILE MAINTAINING THE NOMINAL RATES AND ADVOCATING A REAL REDUCTION IN TAX, ESPECIALLY IN CASES OF ANNUAL INCOME OF UP TO €40,000.00 (FORTY THOUSAND EUROS).”

WRITTEN BY



JOANA VICENTE
Senior Associate



MARIA FREITAS PINTO
Trainee

The 2026 State Budget Bill (*Proposta de OE 2026*) was presented in a demanding political and economic environment, marked by the implementation of the Recovery and Resilience Plan (PRR), the need to guarantee the sustainability of public finances and the expectation of realising structural reforms.

The government characterises the document as "lean", seeking to avoid the proliferation of individual measures. However, there are several tax measures that have been announced and are not part of the budget bill. In this summary, we will only look at what emerges from the LOE approved in general in the Portuguese Parliament:

Personal Income Tax (IRS):

- Updating of income brackets: the income brackets have been updated by around 3%, in line with forecast inflation, while maintaining the nominal rates and advocating a real reduction in tax, especially in cases of annual income of up to €40,000.00 (forty thousand euros);
- The reference value of the existence minimum is updated to €800.00 (eight hundred euros);
- Exempt from personal income tax, up to a limit of 6% of the employee's basic annual salary, are amounts paid or made available to the employee or members of statutory bodies, in 2026, borne by the employer, on a voluntary and non-regular basis, as productivity bonuses, performance bonuses, profit sharing and balance sheet bonuses (exemption conditional on the employer complying with the salary increase under the terms of the Tax Benefits Statute).

Corporate Income Tax (IRC):

- Small and Medium-sized Enterprises (SMEs): the rate applicable to the first €50,000.00 (fifty thousand euros) of taxable income for SMEs is reduced to 16%;
- The requirement for access to the incentive tax benefit for salary valorisation is increased from 4.7% to 4.6%;
- Motor vehicles: the range of *plug-in* hybrid vehicles that benefit from reduced rates is adapted (to include vehicles homologated according to the "Euro 6e-bis" emissions standard - it is also clarified that these vehicles also benefit from an intermediate rate of Vehicle Tax).

**Value Added Tax (VAT):**

VAT rates (normal, reduced and intermediate) remain unchanged.

However, the SB2026 introduces adjustments such as:

- Operations to process olives into olive oil are covered by the reduced VAT rate;
- PDF invoices: the acceptance of invoices in PDF format is extended until 31 December 2026.

Municipal Property Transfer Tax (IMT):

- The brackets are updated; as a result, for example, for those buying a house for their own permanent residence, the exempt threshold for the first bracket is set at €106,346.00 (one hundred and six thousand three hundred and forty-six euros) (and the "young IMT" is also updated accordingly);
- For 2026, there is an exemption from IMT (and Stamp Duty) on the acquisition of contiguous or adjoining rustic buildings, regardless of their economic use, when intended for reparcelling operations.

"SMALL AND MEDIUM-SIZED ENTERPRISES (SMES): THE RATE APPLICABLE TO THE FIRST €50,000.00 (FIFTY THOUSAND EUROS) OF TAXABLE INCOME FOR SMES IS REDUCED TO 16%."

Vehicle Circulation Tax (IUC):

- Rates updated by 2.5 per cent, while maintaining exemptions for electric vehicles, *plug-in* hybrids and vehicles over 30 years old classified as "classics".

In short, the State Budget Bill for 2026 reflects a strategy of continuity, introducing only occasional adjustments.

We'll return to the subject of tax news shortly, in the light of the other measures that have been discussed in the Council of Ministers.