

What changes for companies and workers in 2018?

Inês Beato e Rita dos Reis Louro

Lawyers, GA_P Portugal

Ana Paula Basílio

Head of the Tax Area, GA_P Portugal

Along with the Portuguese Government Budget for 2018, a set of provisions were approved that have a special impact on the determination of employee remuneration and its taxation, unemployment benefits and Social Security contributions. The changes approved in the Government Budget entered into force on 1 January 2018.

In the beginning of January 2018, other legislative changes were published, in particular concerning the communication of occupational accidents and reporting obligations the purposes of statistical information, as well as concerning the contribution 'scheme' for self-employed workers.

Amendments to Employment Provisions

1. Raise of the national minimum wage

The national minimum wage was updated from € 557.00, to € 580.00. From 1 January onwards, the remuneration of workers hired on a full-time basis must meet this minimum, except in the case of trainees, apprentices, interns and trainees in certified training programmes or employees with a 'reduced capacity to work', as defined by law.

As for part-time employees, the employer can set a lower remuneration as long as the same is proportional to the normal working hours for which he is hired.

2. Paid holiday and Christmas bonuses

Although the Government Budget for 2018 Bill contained a transitory provision for the payment of holiday leave and Christmas bonuses in twelfths, the final Act did not include the same.

As such, and except where otherwise provided in an applicable collective bargaining agreement (CBA), the payment of holiday leave and Christmas bonuses should be performed as determined in the law: (i) as for paid holiday and except where otherwise agreed on in writing, payment should be made before the beginning of the holiday entitlement and proportionally if split during the year; (ii) as for the Christmas bonus, payment should be made, at the latest by 15 December.

Notwithstanding, as long as it is permitted by the CBA, the fact that the Government Budget Act did not retain the payment in twelfths framework does not prevent companies from adopting such within certain legal constraints.

3. Unemployment benefit

- a) *Elimination of the 10% reduction applicable to the amount of employment benefit after 180 days of granting*

In the Government Budget for 2018 Act, the value of the unemployment benefit will no longer be reduced by 10% as of the sixth month of granting and thus will have the same value during the entire period it is granted.

The elimination of the 10% reduction will apply to all benefits currently being paid and also to the requests pending analysis by the Social Security Services.

- b) *Supplementary raise (“majoração”) of the unemployment and cessation of activity benefits*

At the same time, the daily amount of the unemployment or of the cessation of activity benefits will be paid with a 10% raise when:

- (i) In the same household, spouses or cohabitating partners are recipients of the unemployment benefit or of the cessation of activity benefit and they have children or other dependents in their care – in which case, the raise of 10% is assigned to each of the recipients.
- (ii) In a single-parent household, the single parent is the recipient of the unemployment benefit or cessation of activity benefit.

The assignment of the raise depends of the interested party's request and on proof that the requirements for such assignment are met.

This framework applies to the recipients that are being paid the benefit with this raise at the date of 1 January 2018, interested parties that submitted the application for assignment of the unemployment benefit or cessation of activity benefit and are awaiting decision of the competent authorities, as well of interested parties that request this raise for as long as the Government Budget Act for 2018 is in force.

4. New templates to communicate occupational accidents and reporting obligations

Following the entry into force on 26 November 2017 of the rules on the collection, publishing and disclosure of statistical information regarding occupational accidents, the new template that must be adhered to when communicating occupational accidents has now been published.

Adherence to this new template is mandatory for the reporting of occupational accidents by private-sector companies (including cooperatives and social enterprises), by public entities, self-employed workers and domestic workers who have transferred the liability for occupational accidents to an insurance company. Non-adherence to the approved template constitutes a minor infringement subject to fine.

On the other hand, new rules were approved regarding data reporting by insurance companies to the Employment and Industrial Relations Office "*Direcção-Geral de Emprego e das Relações de Trabalho*" ("DGERT").

Amendments in Tax and Social Security matters

5. IRS brackets and withholding tax tables for 2018

Along with the Government Budget for 2018, the Personal Income Tax ("PIT") rates for the year of 2018 were approved in line with the following brackets:

Bracket	Taxable income	Rate	
		Normal (A)	Average (B)
1.	Up to 7 091 €	14,50%	14,500%
2.	From 7 091 € to 10 700 €	23,00%	17,367%
3.	From 10 700 € to 20 261 €	28,50%	22,621%
4.	From 20 261 € to 25 000 €	35,00%	24,967%

Bracket	Taxable income	Rate	
		Normal (A)	Average (B)
5.	From 25 000 € to 36 856 €	37,00%	28,838%
6.	From 36 856 € to 80 640 €	45,00%	37,613%
7.	More than 80 640 €	48,00%	-

The introduction of two new brackets results from splitting into the second and third that which clustered the incomes between seven thousand and twenty thousand euros and between twenty and forty thousand euros, respectively.

Following the restructuring of the PIT brackets, new tax withholding tables were approved for 2018 in the Schedule to the Order n.º 84-A/2018, published on 2 January and which can be accessed in the website of *Diário da República Eletrónico* in <https://dre.pt/application/conteudo/114440365>.

Regarding non-habitual residents, and despite the public discussion about the possibility of retirement pensions of a foreign source obtained by the same to be taxed in Portugal under IRS, with a reduced tax rate, it was decided to maintain the exemption provisions in the terms already contained in the PIT Code.

6. Food allowance taxation in the private sector

For 2018, the food allowance paid by the employers in the private sector to their employees will be exempt from taxation up to the following amounts:

- €4.77, if the food allowance is paid in cash;
- €7.63, if the food allowance is paid by way of luncheon vouchers (in particular the so called “luncheon cards”).

When not surpassing the limits indicated, the amounts paid as food allowances are also exempted from contributions to the Social Security.

7. Self-employed workers and contracting authorities/entities

On 9 January 2018 the Decree-law that amends the contribution scheme for self-employed workers was published.

The following changes entered into force, taking effect on 1 January 2018:

- a) *The threshold value for certain legal persons or individuals to be considered contracting entities for contribution purposes was updated. “Contracting entities” are the legal persons or individuals with business activity, regardless of its nature and of the objectives they pursue, that in the same calendar year benefit from more than 50% of the total value of the services of the self-employed worker;*
- b) *The 5% contribution rate on the total value of the service provided by the self-employed worker charged to contracting entities was also updated. The contracting entities are now subject to the following contribution rates as follows:*
 - 10% contribution rate on the total amount of the services provided, when they benefit from more than 80% of the total annual amount of the services provided by the self-employed worker in a given year;
 - 7% contribution rate on the total value of the services provided, when they benefit from between 50% and 79% of the total annual amount of the services provided by the self-employed worker in a given year.

On 1 January 2019, other changes to the Contribution Schemes Code will enter into force, in particular the change of the determination of the contribution base and the reduction of the contribution rate for the majority of self-employed workers (from 29.6% to 21.4%) and for employers and owners of individual private limited establishments and their respective spouses (34.75% to 25.2%). Until such moment, the contribution base established in October 2017 will apply.

Finally, with the Government Budget for 2018, the Contribution Schemes Code now establishes a new category of contributors, the “Young on school holidays”, which is covered by the general scheme with the specificities of the law. In particular, the contribution rate on income earned is set at 26.1% and is the responsibility of employers.