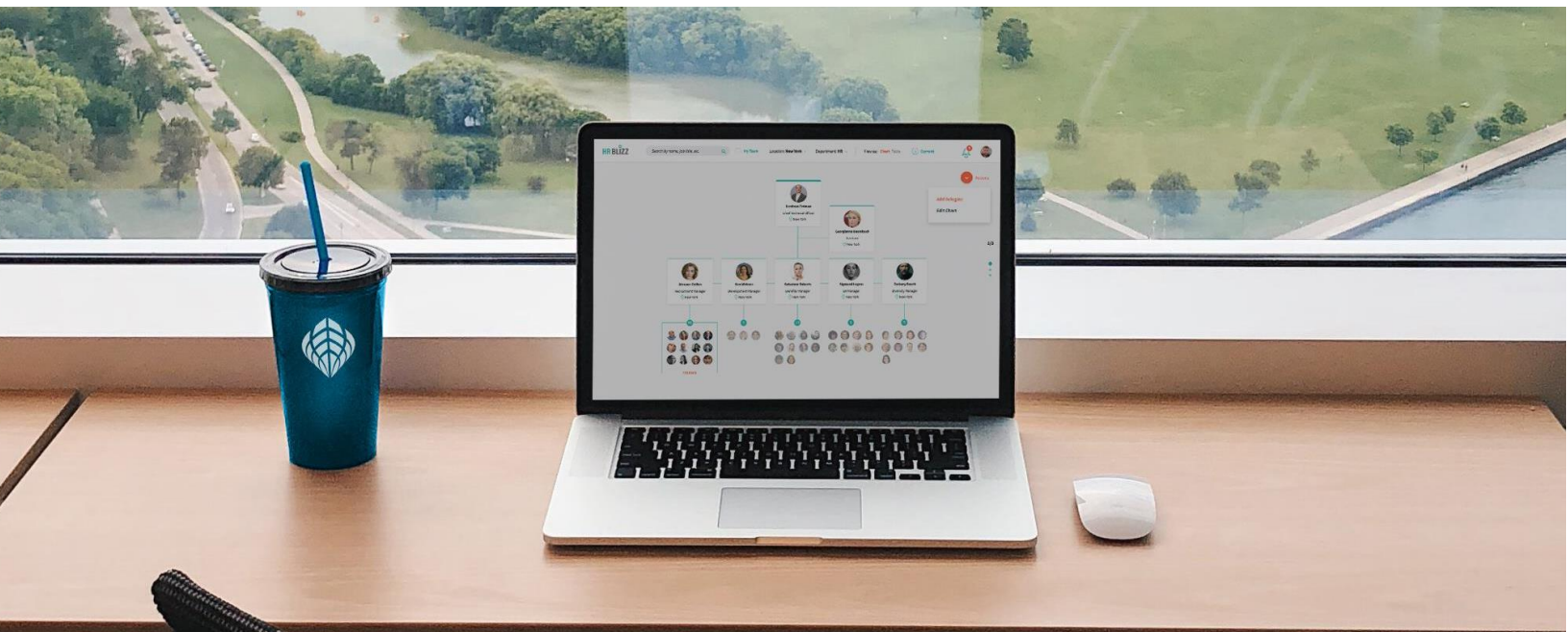




Simplifying Employment
Tasks Worldwide

Payroll & Tax Highlights

2020 Global Payroll Country Guide for Portugal



PORTUGAL



May 25, 2020



MERCANS

We help you achieve your global ambitions

Thank you for trusting Mercans to outsource your HR and Payroll functions. We propose HR consulting services, actionable solutions, and cost-effective global payroll processing tools to energize your human capital management in real-time and augment your performance. We are dedicated to becoming your business growth facilitator.



Global Payroll Solutions – Boost your HR brand and employee satisfaction

Rationalize your HR budgets, monitor your data, and optimize your global payroll tasks in real-time. Systematize processes and streamline HRM lifecycles with HR Blizz™, our unified SaaS platform, to ensure your employees are paid accurately and on time.



PEO/GEO Services – Easily hire, deploy and manage your workforce abroad

A reliable Professional Employer Organization (PEO), Mercans is your trusted employer of record to globally select, engage, and manage highly-qualified personnel on your behalf, through integrated Global Employment Outsourcing (GEO).



Global Talent Acquisition – Quickly fill vacancies with only the best candidates

Mercans supports you in designing/deploying long-term HR strategies and processing full-cycle recruitment. Our ATS Suite Mesaar™ and our hiring experts help to screen, select, attract the right candidates for your organization, and populate your pipeline of prequalified talents.



BPO Services – Reclaim the focus on your core activities to expand your business

Concentrate on the essentials: outsource non-primary activities and your front- and back-office functions to Mercans. Save the time, money, and energy needed to refine the value chain engagement of your customers and suppliers, and increase revenue.



HR Management SaaS – Access customizable cloud-based online platforms

Centralize your HR function on an all-in-one user-friendly and self-service platform. Combined with the expertise of our consultants, the Mesaar SaaS offers a built-in applicant tracking system and easy-integration features to improve internal processes.



Local Statutory Compliance – Forget the hassle of setting up branches abroad

Mercans seasoned HR advisory team are compliance experts specialized in local cultures, business protocols, and tax and legal specificities. They are committed to ensure quick go-to-market abroad and achieve a compliant global expansion, risk-free from A to Z.



Mercans at a Glance

140+ Countries	20 Years of Success	500+ Specialists
5k+ Customers Worldwide	97% Client Retention Rate	1.5X Annual Revenue Growth
25k+ Largest Single Payroll	2.5M+ Pay Slips per Annum	0 Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certifications.

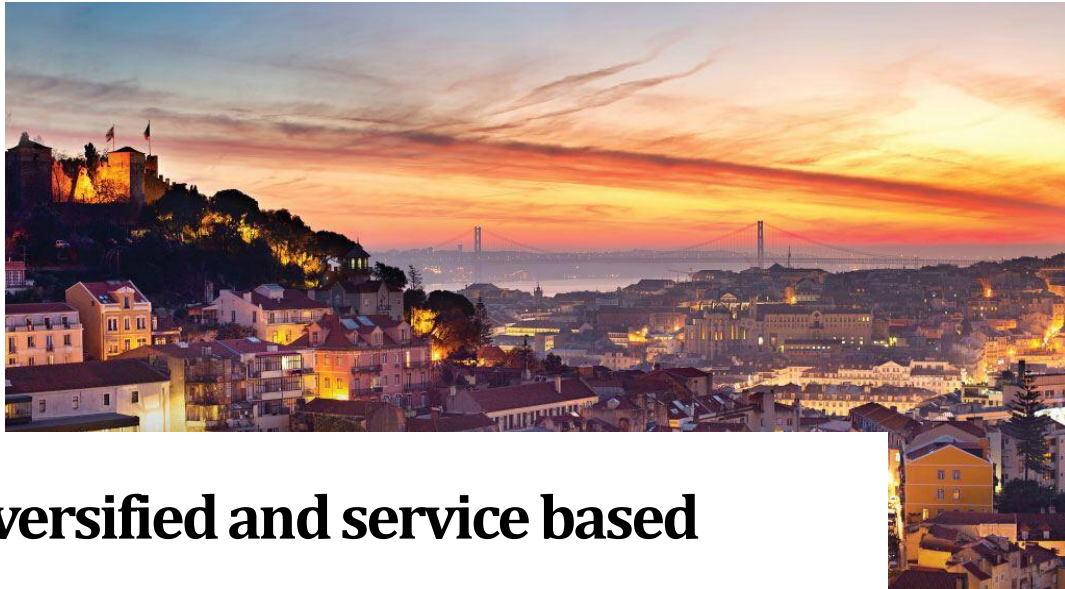




MERCANS

Table of Contents

DOING BUSINESS IN PORTUGAL	6
BASIC FACTS	6
INCORPORATION REQUIREMENTS	7
<i>Management</i>	<i>10</i>
<i>Reporting Requirements</i>	<i>11</i>
BANKING.....	12
WORKING WEEK.....	13
<i>Rest Break.....</i>	<i>13</i>
<i>Daily Rest</i>	<i>13</i>
<i>Weekly Rest.....</i>	<i>13</i>
<i>Overtime</i>	<i>13</i>
<i>Night Work.....</i>	<i>14</i>
<i>Shift Work.....</i>	<i>14</i>
TAX & SOCIAL SECURITY	15
CORPORATE INCOME TAX	15
PERSONAL INCOME TAX	15
<i>Employment Income – Young People</i>	<i>16</i>
<i>Exclusion from Taxation – Students</i>	<i>17</i>
<i>Dependent Deduction</i>	<i>17</i>
<i>Employment Expenses</i>	<i>17</i>
EMPLOYMENT INCOME	18
<i>Benefits in Kind</i>	<i>18</i>
<i>Termination of Employment.....</i>	<i>18</i>
INCOME TAX ADMINISTRATION	18
<i>Termination Returns</i>	<i>18</i>
<i>Tax Payments.....</i>	<i>19</i>
SOCIAL SECURITY	19
COMPENSATION FUNDS.....	20
ADMINISTRATION	20
PAYROLL	22
OVERTIME	22
FINAL PAY	22
EMPLOYMENT LAW	24
EMPLOYMENT OBLIGATIONS	24
<i>Mandatory Accident Insurance.....</i>	<i>25</i>
LEAVES	25
WORK COUNCIL.....	25
TERMINATIONS.....	26
IMMIGRATION	29
VISA APPLICATION PROCESS.....	29
RESIDENCY PERMIT	29



Portugal – diversified and service based economy.

After achieving its strongest growth of the century in 2017, the Portuguese economy kept expanding and is estimated to have grown by 2.2% of GDP in 2019, from 2.6% the previous year (IMF). The growth was mainly driven by strong domestic demand, which should however ease in the upcoming years due to a reduction in job creation (partly offset by the expected increase in wages). In the short term, a weakening industrial performance should be counterbalanced by the services and construction sectors. According to the updated IMF forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to fall to -8% in 2020 and pick up to 5% in 2021, subject to the post-pandemic global economic recovery.

This recent prosperity has allowed the country to reduce its budget deficit significantly: it stood at -0.1% of GDP in 2019, helped by higher cyclical-related revenue, decreasing interest expenditure and lower public investments than what originally planned. The budget is expected to go positive in 2020, reaching a surplus of 0.5% of GDP, although the Novo Banco contingent capital mechanism – at 0.6% of GDP – will have a negative impact on public finances. The debt-to-GDP ratio is still one of the highest in the EU, however, the European Commission has praised the Portuguese government for its efforts to respect European rules while pursuing an ambitious policy to support growth and social justice.

Unemployment rate dropped to 6.5% in 2019 (from 7% a year before). However, the IMF expects this trend to be heavily affected by the negative economic impact of the COVID-19 pandemic, the rate being currently estimated to increase to 13.9% in 2020 and decrease slightly to 8.7% in 2021. Nevertheless, wages are projected to gradually accelerate, supported by the unfreezing of career progressions in the public sector and a reduction in labor market slack.

The agricultural sector comprises around 2.1% of Portugal's GDP and employs 6% of the active population (World Bank, 2019).

Mercans and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.



MERCANS

Doing Business in Portugal

Portugal is situated on the West and Southwest side of the Iberian Peninsula in south-western Europe.

The country covers an area of 92,072 square km and is divided into 308 municipalities, which are further subdivided into more than 4,000 parishes.

The population of Portugal is 10.56 million according to the 2011 Census conducted by the National Institute of Statistics. The capital is Lisboa (Lisbon) and the official language is Portuguese. The majority of Portuguese are Roman Catholic. There are small numbers of Protestants, Hindus, Jews and Muslims but the number of Evangelic Christians is currently rising due to the large numbers of Brazilians and their descendants who emigrated to Portugal in the early 2000's.

Portugal is in the GTM zone and during March to October Daylight Saving Time (UTC +1 hour) is in operation.

Portugal has a maritime temperate climate with average annual temperatures of about 16°C. The North is usually cool and rainy, whilst the South is generally warmer and drier.

Portugal is now a parliamentary republic based on a Constitution drafted in 1976. The executive is represented by the President, the Council of State (the presidential advisory body), the Prime Minister and Council of Ministers (the government).

The President is directly elected for a maximum of two consecutive five-year terms. The Prime Minister who is also elected leads the Council of Ministers.

The legislative body is constituted by the unicameral Assembly of the Republic (Parliament) of 230 deputies, who are elected for a maximum period of four years. The judicial power is vested in the Supreme Court, district courts, appeals courts and Constitutional Tribunal.

The main agricultural products of Portugal are: cereals, olives and their vineyards. The main industries are cement production, fishing, oil refineries, automotive and shipping machinery, paper injection moulding, electrical and electronics plastic products, textiles, footwear, leather, ceramics, furniture, and cork (of which Portugal is a leading producer). In addition, in several areas across the country there are non-traditional technology-based industries: biotechnology, aerospace, and ICT sectors.

Basic Facts

Official State Name	Portuguese Republic
Population	10.28 million (2018 estimate)
Capital	Lisbon



MERCANS

Major Languages	Portuguese and Mirandese
Currency	Euro (EUR)
Main Industries & Export Articles	Agriculture, forestry, minerals, automotive, aerospace, electronics biotechnology, IT.
GDP Growth	2.2% (2019)
Internet Domain	.pt
International Dialing Code	+351
Dates & Numbers	dd/mm/yyyy 999.999.999,00

Incorporation Requirements

No special restrictions apply to foreign shareholders or directors in Portugal. Portugal has agreements with more than 50 other countries for the reciprocal protection and promotion of investments, and agreements with 79 countries for the avoidance of double taxation.

The process for incorporate a company in Portugal is quite fast - it takes less than 1 hour to set up a company through the "Empresa na Hora" (On the Spot Firm) service.

The most popular company formats used by non-resident investors are the "Sociedade por Quotas (Lda)", a private company limited by shares (called "quotas") and with no minimum capital requirements, as well as the sucursal, a branch of a non-resident business, having no separate legal personality. The branch is treated in practice like a domestic company as regards taxation and compliance; but there is no requirement to file the "parent's" accounts in Portugal and, unlike a domestic company, the distribution of profits by the branch to the parent are not subject to taxation, which accounts for its popularity for some types of investments.

For limited liability companies (sociedades por quotas) (LLCs) the following requirements apply:

- Minimum number of founder shareholders (entities or individuals): one.
- For LLCs there is no minimum share capital on incorporation. However, the minimum nominal value of quotas is fixed at EUR1. The initial share capital must correspond to the sum of all entries made by the shareholders and is represented by quotas. However, no quota certificates exist. Payment of the cash consideration can be made until the end of the first financial year, unless otherwise provided for in the articles of association. The articles can allow payment to be deferred for specific dates or by specific facts, which cannot exceed five years after the incorporation date.
- Corporate designation: requires prior approval by the Companies National Registry Office. If the company is owned by one shareholder, the company's designation must include the word "unipersonal".
- Governance: discharged by managers designated by the shareholders.
- Statutory auditing: not mandatory except if, for two consecutive fiscal years, the company exceeds any two of the following three thresholds:
 - total of balance sheet is EUR1.5million.



MERCANS

- total of net sales and other earnings is EUR3million.
 - average number of employees during the fiscal year is 50.
- Portuguese tax identification numbers: all shareholders and members of the corporate bodies must have a Portuguese tax number.
- Incorporation document: the company can be incorporated by private document or notarial deed executed by the shareholders or representatives, which includes the articles of association. The incorporation document must be signed before a notary or entity who certifies the signatures. It is common for the shareholders to grant powers to a Portuguese resident who can personally attend the notary or certifying entity.
- Incorporation date: the company is formally incorporated and acquires legal existence on the date the commercial registry of incorporation is filed, which is on the filing of the incorporation deed including the articles of association.

The standard legal entity incorporation steps for Portugal have been summarized below:

No.	Procedures	Time To Complete
1	Register at the one-stop shop (Empresa na Hora)	1 day

Agency : One-Stop Shop (Empresa na Hora)

There are two ways of starting a business in Portugal:

1. "On the Spot Firm" (Empresa na Hora). This is currently the most common way to register a business. This service enables to set up a company in less than an hour at a single contact point. As long as the partners have all of necessary documents, the company is set up immediately at one of the desks of the On the Spot Firm offices, available throughout the country, regardless of the location of the company's headquarters.

The first step is to choose a name from the list of pre-approved names available online or to submit a name of its choice and obtain a company name certificate. This certificate can be requested online and it is valid for 3 months. If the name of the company is composed by the name of its shareholders, it may be approved at the moment of incorporation of the company at the one-stop shop.

Then entrepreneurs need to choose one of the pre-approved standard company deeds, available at Empresa na Hora. The company founders need to present their identification cards.

At the service desk, it is possible to get both the articles of association and commercial registration. Partners will receive a temporary code to access the certificate of incorporation, the corporate identification card, the Social Security number, and the original by-laws.

2. "Online company setting up" (Empresa Online):



MERCANS

This service enables to set up a company through the Internet in 1 to 2 days. The access to the service On-Line Company ('Empresa Online') can be made through the [ePortugal](#) portal.

The costs are the following:

- Incorporation under "Empresa na Hora": EUR 360;
- Incorporation under "Empresa on-line": (i) EUR 360 if not incorporated with pre-approved by-laws, or (ii) EUR 220 if incorporated with pre-approved by-laws.

Since Ordinance no. 233/2018 of August 21: Regulates the Legal Regime of the Central Register of Beneficial Ownership (Legal Regime of the RCBE) was approved by Law no. 89/2017, of August 21, the shareholders must declare the local company's ultimate beneficial owner ("UBO") at the time of its incorporation.

2	Open a bank account and obtain a Bank Identification Number (IBAN)	1 day
Agency : Bank		
Business founders must open a bank account and obtain a Bank Identification Number (IBAN).		
3	File the declaration of commencement of activity with the Tax Authority and register for VAT	3 days
Agency : Tax Authority		
The declaration of commencement of activity has to be submitted at the Tax Authorities' Offices along with evidence that the company was incorporated. Business founders must provide the Tax Authority with their Bank Identification Number (IBAN) and their corporate identification card. VAT registration can be done when submitting the declaration of commencement of activity.		
4	Register with Social Security	2 days
Agency : Social Security Agency		
The employers shall communicate the admission of employees to the Portuguese Social Security services of the area of the employee's workplace online at www.seg-social.pt within (i) 24 hours preceding the employment agreement's entry into force; or (ii) 24 hours following the beginning of the activity, whenever – due to exceptional and duly justified reasons in connection with the conclusion of very short term employment agreements or due to shift work – such notice cannot be served within the set out deadline.		
The non-compliance with this obligation implies the assumption that the relevant employee started to work for the company on the 1st working day of the sixth month prior to the occurrence of the infringement. In case the relevant employee is receiving sickness or unemployment benefits there is also an assumption that		



the employ started to work for the company on the date in which those benefits were granted, whereby the company will be severally liable for returning the whole amounts unduly received by the employee by the Portuguese Social Security. Moreover, the non- compliance with the above mentioned obligation may result in a minor or a serious misdemeanor, depending on its compliance within 24 hours after the deadline or after that, corresponding to a fine from € 75 up to € 4,800. Pursuant to the enacted Law No. 83-C/2013, of 31 December 2013, the above mentioned communication will now have to be made online.

5 Register for the workers' accident insurance at a private insurer

1 day

Agency: Private Insurer

In order to guarantee an effective compensation of damages arising from work accidents covering employees, trainees and paid managers, the Portuguese legislator requires from the employer the transfer of all its responsibility to insurance companies, before the entry into force of the relevant agreements. In case not all the responsibilities are transferred by the employer to the insurance company, the first one will be solely responsible in the extent of the non-transferred responsibilities.

Furthermore, the non-compliance with the above mentioned obligation may trigger a very serious misdemeanor, implying the payment of a fine between € 3,264 and € 19,380.

6 Register employees with the Labor Compensation Funds (FCT and FGCT)

1 day

Agency : Labor Compensation Funds (Fundo de Compensação do Trabalho - FCT and Fundo de Garantia de Compensação do Trabalho - FGCT)

According to the Portuguese labor law (Law 70 of August 30, 2013), employees shall be registered in two Labor Compensation Funds (Fundo de Compensação do Trabalho - FCT and Fundo de Garantia de Compensação do Trabalho - FGCT). Registration at FGCT takes place automatically once one registers with FCT online.

The contribution to these funds is intended to enable the payment of part of the compensation eventually due in case of termination of the employment agreement. The employer is responsible for the monthly payment of the amount of 0.925% to FCT and of 0.075% to FGCT, both calculated on the amount of base salary and seniority premiums due to each employee.

Management

For limited liability companies (sociedades por quotas) (LLCs) the following applies:



MERCANS

Management is discharged by one or more managers, who must be individuals, designated by the shareholders unless another form of designation is set out in the articles of association. Designation can be made with no time limit and are subject to mandatory commercial registry.

When management is discharged by several managers, the respective powers are jointly performed unless otherwise provided for in the articles of association.

Managers cannot delegate current management. However, they can delegate to one or more managers the powers to perform certain business activities or certain category of business activities.

Reporting Requirements

The following reporting requirements apply to LLCs:

- Annual accounts: annually filed to the commercial registry and are publicly available.
- Statement of commencement of activity from the tax authorities.
- Statement of commencement of activity for social security.
- Other requirements: depending on the corporate activity to be carried out by the company.

Portugal has adopted IAS/IFRS and requires the preparation of annual financial statements.



MERCANS

Banking

Portugal has a modern banking system that includes one of the most advanced inter-bank networks in the world through Multibanco. There are currently over 150 banks in Portugal. This includes a range of private national retail banks, public and cooperative banks, international banks, and newer mobile banks.

Although the number of physical bank branches in Portugal is on the decline over the last decade, there are still around 36 branches per 100,000 of the population. That's nearly three times the global average.

The majority of banks in Portugal belong to the Portuguese Banking Association. The central bank in Portugal is the Banco de Portugal, which also serves as the regulatory authority for Portuguese banks.

Portugal has many private high street banks that offer a range of current accounts. Some offer student accounts, non-resident accounts, as well as joint accounts. Larger banks in more populated cities will often have English-speaking staff.

Banks in Portugal are linked to the Multibanco ATM system where you can withdraw money, pay bills, top up mobile phones, transfer money to other accounts, as well as paying tax and social security contributions.

Standard banking hours in Portugal are 08:30 to 15:00; some locations are also open until 16:00. Some also banks open for a few hours on Saturdays, too.

A number of major private retail banks operate in Portugal, such as:

- Banco Best
- BancoBIC
- Banco BPI
- Millennium BCP
- Novobanco
- Santander Totta

Payroll payments are typically made through the Single Euro Payments Area (SEPA) process.

Since 2017, the following restrictions have been introduced with respect to cash transactions:

- It is forbidden to pay or receive any payment in cash equal or higher than EUR 3,000 (or its equivalent in foreign currency). This amount is increased to EUR 10,000 (or its equivalent in foreign currency) in case of natural persons not resident in Portugal and not acting as entrepreneurs or merchants;
- The payments made by the Portuguese Corporate Income Tax taxpayers and the Portuguese Personal Income Tax taxpayers who have (or need to have) organized accountancy, equal or higher than EUR 1,000 (or its equivalent in foreign currency), must be performed through a means of payment that allows the identification of the beneficiary, namely bank transfer, check or direct debit; and



MERCANS

- It is forbidden to pay in cash taxes in amount higher than EUR 500.
- For the purposes of calculating the above-referred limits, all payments associated with the sale of goods or services are considered in aggregate form, even if they do not exceed that limit if considered in a fractional way.

The above-mentioned limits to the use of cash do not apply to the operations with financial entities whose legal scope includes: (i) the receipt of deposits; (ii) the provision of payment services, (iii) the issuance of electronic money or; (iv) the performance of manual exchange transactions, in payments resulting from judicial decisions or orders and also in specific situations ruled by special law.

Cash payments exceeding the above-referred legal limits are punishable with a fine ranging from EUR 180 up to EUR 4,500 in case of natural persons and EUR 360 up to EUR 9,000 in case of legal persons.

Working Week

Normal working period: as a rule this may not exceed 8 hours per day or 40 hours per week. Labor law allows flexibility in daily or weekly working hours, through collective bargaining or by agreement between employer and employee. The limit of 12 hours per day or 60 hours per week may never be exceeded, and employees are entitled to the corresponding additional rest periods. Labor law lays down special rules for time banks, adaptability schemes and intensive work schedules.

Rest Break

As a rule, the working day must be broken by a period of between one and two hours to avoid employees working for more than five consecutive hours. A collective bargaining agreement may allow employees to work for up to six consecutive hours or may lengthen, shorten or eliminate the rest break.

Daily Rest

Employees are guaranteed a minimum of 11 continuous hours of rest between two consecutive working days. Sectors where continuous service or production must be ensured (e.g. hospitals, ports, airports, telecommunications, industries where continuous working is in operation, etc.) are subject to special rules, but workers are always guaranteed minimum compensatory rest periods by collective bargaining agreement.

Weekly Rest

By law, Sunday is as a rule the compulsory weekly rest day. In addition to this, another half or full day's rest may be granted (generally on a Saturday), which may be split or discontinuous. There are exceptions in some sectors of activity where weekly rest is defined by collective bargaining.

Overtime

This is all work done outside normal working hours. Employees must work overtime unless they expressly request dispensation on justifiable grounds. Use of overtime has fallen and been replaced by flexible working hours (time banks, adaptability schemes, intensive work schedules, shifts). Each worker may work overtime only for a maximum of 150 hours a year in medium and large companies, or 175 hours a year in micro and small enterprises.



MERCANS

Overtime worked on a normal working day entitles employees to the following increases in pay: 25 % of pay for the first hour or part thereof; 37 % per subsequent hour or part thereof on working days; 50 % per hour or part thereof on compulsory or additional weekly rest days or public holidays.

Employees who work overtime that prevents them from taking their daily rest are entitled to paid time off in lieu equivalent to the missing rest hours, to be taken within the next three days. Employees who work overtime on the compulsory weekly rest day are entitled to one paid day off in lieu, to be taken within the next three working days.

Night Work

Work lasting for a minimum of 7 hours and a maximum of 11 hours, which always includes the period between midnight and 5 a.m. Under collective bargaining agreements, night work may cover the period between 10 p.m. on one day and 7 a.m. on the following day. Night work is subject to a pay increase of 25 % or more (where determined by a collective bargaining agreement) over equivalent daytime work.

Shift Work

Any way of organizing work in teams, in which employees successively occupy the same workstations in rotation at a set rate. This means that individual workers may be working at different times during a given period of days or weeks. Under the system of continuous working, employees on each shift have at least one day's rest every seven days.



MERCANS

Tax & Social Security

Corporate Income Tax

Resident companies in Portugal are taxed on their worldwide income.

There is an optional regime to exclude from taxation the profits and losses allocated to a foreign permanent establishment (PE) of a Portuguese company.

Corporate Income Tax (CIT) is also applicable to Portugal-source income attributable to a PE of a non-resident company in Portugal. Special Withholding Tax (WHT) rates apply to income generated in Portugal that is attributable to non-residents without a PE in Portugal.

A flat CIT rate of 21% applies on the global amount of taxable income realized by companies resident for tax purposes in mainland Portugal (also applicable to Portuguese PEs of foreign entities). The standard CIT rate is 20% in the Autonomous Region of Madeira and 16.8% in the Autonomous Region of the Azores, including PEs of foreign entities registered therein.

A reduced CIT rate of 17% (13% in the Autonomous Region of Madeira) applies to SMEs on the first EUR 25,000 of taxable income (the standard CIT rate shall apply on the excess). Additionally, SMEs that are located in Portuguese inland regions benefit from a rate of 12.5% on the first EUR 25,000 of the taxable amount, also being subject to the standard CIT rate on the excess.

Entities that do not carry out a commercial, industrial, or agricultural activity as their main activity are subject to a 21% CIT rate on the global amount of their taxable income.

Personal Income Tax

Residents in Portugal for tax purposes are taxed on their worldwide income at progressive rates varying from 14.5% to 48%.

Non-residents are liable to income tax only on Portuguese-source income, which includes not only that portion of remuneration that can be allocated to the activity carried out in Portugal but also remuneration that is borne by a Portuguese company or permanent establishment (PE).

Non-residents are taxed at a flat rate of 25% on their taxable remuneration.

According to the Portuguese tax law in force since January 2015, an individual is deemed to be resident in Portugal for tax purposes if one meets either of the following conditions:

- Spends more than 183 days, consecutive or not, in Portugal in any 12-month period starting or ending in the fiscal year concerned.
- Regardless of spending less than 183 days in Portugal, maintains a residence (i.e. a habitual residence) in Portugal during any day of the period referred above.

The Personal Income Tax Reform introduced a partial residence concept, so that there is a direct connection between the period of physical presence in Portuguese territory and the status of tax resident.



MERCANS

Thus, as a rule, the taxpayer will become resident in Portugal as of the first day of stay in the Portuguese territory and non-tax resident as of the last day of stay in Portugal, with a few exceptions.

The income tax rates for Portugal mainland) applicable in 2020 to residents are summarized below:

Annual Taxable Income (EUR)		Tax Rate (%)	Deductible Amount (EUR)
More Than	Less Than		
0	7,112	14.5	0
7,112	10,732	23.0	604.54
10,732	20,322	28.5	1,194.80
20,322	25,075	35.0	2,515.63
25,075	36,967	37.0	3,017.27
36,967	80,882	45.0	5,974.54
80,882		48.0	8,401.21

Portuguese income taxes apply to earnings in the following six categories:

- A:** Employment income
- B:** Self-employment income
- E:** Investment income
- F:** Rental income from properties let in Portugal
- G:** Capital gains from selling properties, assets or shares
- H:** Pensions in Portugal, including private pension plans

There is also an additional solidarity surcharge that will be levied as follows:

- 2.5% on the annual taxable income between EUR 80,000 and EUR 250,000
- 5% on the annual taxable income exceeding EUR 250,000.

Employment Income – Young People

The law introduces a partial exemption from Personal Income Tax (PIT) on employment income earned by taxpayers aged between 18 and 26 years old, that do not qualify as dependents and earn an amount of gross income equal or lower than EUR 29,179 (taxable income of EUR 25,075).



MERCANS

The exemption only applies in the first three years in which these taxpayers earn income, after the year of completion of a level of education equal or higher than level 4 of the National Qualifications Framework, occurring in 2020 or following years.

The exemption corresponds to 30% of the income earned in the first year, 20% in the second year and 10% in the third year, capped at 7.5 x SSI (Social Support Index – “Indexante dos Apoios Sociais” or “IAS”), 5 x SSI and 2.5 x SSI (EUR 438.81 in 2020), respectively.

Each taxpayer can only benefit from this exemption once. The identification of the taxpayers who complete in each year one of the above levels of education is communicated to the Portuguese Tax Authorities in accordance with the procedure to be established by Decree.

In the annual income tax return (Form 3 or “Modelo 3”) the taxpayer should mark the option to exempt the referred income. Any remainder income earned is taxed at the general rates, however the full amount of income earned is considered for the purpose of determining the applicable rate (exemption with progression).

The withholding tax rate should also be determined with reference to the total income earned however applying only to the portion of income subject to tax. The taxpayer is required to provide proof of completion of a cycle of studies to the payer of the income.

Exclusion from Taxation – Students

It is created an exclusion from taxation, capped at 5 times the IAS (i.e., € 2,194.05, for 2020) on employment income (Category A) from a labor contract and self-employment income (Category B) from a service-rendering activity, including single acts, obtained by students which are considered dependents for tax purposes and who are studying in a school integrated in the national education system or equivalent.

For this purpose, taxpayers should file a document supporting their attendance of the relevant school through the Portuguese Tax Authorities’ (PTA) website, up to 15 February of the year following the one to which the income relates to.

Dependent Deduction

The legislation provides for a personal deduction of EUR 600 per dependent, as well as an additional deduction of EUR 126 when the dependents are aged up to 3 years on 31 December of the tax year.

In case of joint parental responsibility and alternate residence of the minor, the deduction amounts to EUR 300 with an additional deduction of EUR 63.

The additional deductions mentioned have been increased to EUR 300 and EUR 150, respectively, applicable to the second and following dependents, regardless of the age of the oldest dependent.

Employment Expenses

Union fees paid to Portuguese trade unions (in the part that does not constitute a direct contribution for health, education, elderly support, home, insurance, or social security benefits) may be deducted against employment or pension income. The deduction is 150% of total fees, up to a limit of 1% of the taxpayer’s gross employment or pension income.



MERCANS

Employment Income

Employment income/remuneration is specifically defined in the Personal Income Tax Code and covers all payments made by the employer, such as salary, bonuses, commissions, tax reimbursements, redundancy payments, pensions, allowances (e.g. cost-of-living and housing allowances), and benefits in kind (e.g. company cars), regardless of where the payment originates.

Domestic and foreign travel allowances, as well as mileage and lunch allowances in excess of those permitted to employees of state departments, are also taxable as employment income.

Benefits in Kind

In general, benefits in kind provided by an employer are subject to income tax at the employee level. There are specific provisions on taxation of employer-provided housing or housing allowances, use and acquisition of company cars, and share plans.

The taxable benefit from the use of a company car is taxable at the employee level if there is a written agreement between the employer and the employee regarding the allocation of a specific car to the last. In these circumstances, the benefit corresponds to 0.75% of the market value of the car, multiplied by the number of months of use of the car. If the company car is then acquired by the employee, a further benefit in kind will correspond to the positive difference between the market price of the car and the total amount already taxed as a benefit in kind to the employee as a result of using the car plus the acquisition price. The market price corresponds to the difference between the acquisition price and the balance derived from that value considering a depreciation factor published by the relevant authorities.

Termination of Employment

Redundancy payments are taxable on the portion that exceeds the average remuneration paid during the last 12 months of employment, multiplied by the number of years of employment, unless a new employment contract or service contract is concluded with the employer or a related person within 24 months from the date of termination of the employment contract.

However, in case of a manager or administrator, the redundancy payments are fully liable to taxation. This measure is also applicable for public sector managers and PE representatives.

Income Tax Administration

Termination Returns

Personal Income Tax returns should be filed by 30 June of the year following the one the income relates to.

Married couples may opt to file a joint tax return disclosing the total income earned by both.

In case of taxpayers who do not opt for filing a joint tax return, the respective dependants should be reported in both parents' annual income tax returns.

Foreign bank accounts are required to be disclosed on annual income tax returns.



MERCANS

Tax Payments

Portugal uses a pay-as-you-earn (PAYE) system, adjusted by annual tax return filing. Additional payments or refunds are made based on the tax returns filed.

For Portuguese income tax returns electronically submitted by the legal deadline (i.e. by 30 June of the year following the one the income relates to), the Portuguese tax authorities should issue the tax assessment by 31 July of that year and the respective tax due, if applicable, should be paid by 31 August. If the Portuguese tax authorities do not issue the tax assessment by 31 July, the tax liability should be paid within one month from the issue of the referred tax assessment.

Social Security

Social security contributions are shared by the employee and the employer. The contributions are due on the employee's gross remuneration at rates of 11% and 23.75% by the employee and the employer, respectively. These contributions cover family, pension, and unemployment benefits.

Foreign residents may be exempt from social security in Portugal if they contribute to a compulsory social security system in a European Union (EU) country or a country that has a bilateral social security agreement with Portugal, provided they are in possession of the relevant certificate of coverage.

In addition to social security contributions at a general rate of 23.75%, employers must buy an insurance premium to cover occupational accidents. The premium varies according to work and risk classification.

Regarding members of the board, the social security rates correspond to 9.3% with respect to the individual contributions and 20.3% for employer contributions. However, the contribution rate applicable to members of statutory boards who are considered as managers or administrators is set at rates of 23.75% and 11% to employers and members of statutory boards, respectively. The contributions of members of statutory boards are based on their effective remuneration but subject to a monthly minimum income level of EUR 435.76.

Members of statutory boards who are considered as managers or administrators, and some types of self-employees, become entitled to protection in the event of unemployment.

The basis for contributions due by self-employees is a notional income. The contributions basis will be determined by the social security authorities taking into consideration the average remuneration of the previous year and will be reviewed in October of each year.

A 10% contribution rate is due by employers if 80% or more of the fees earned by the self-employee come from services for the same company, for the same person with a business activity, or to the same group. A 7% contribution rate is due by employers when the economic dependence of the self-employee varies between 50% and 80%. The contribution is payable upon the issue of a tax assessment by the social security authorities.

As of 1 January 2020, the Portuguese monthly minimum wage is EUR 635.



MERCANS

The registration of employees for social security purposes must always be made online and at least 24 hours before the start of the labor contract. The form Mod. RV1009/2005 is only used if the new employee does not have a social security number assigned, where usually this applies to foreign workers (not Portuguese or those who have never worked before in Portugal). Additionally, in this particular case, the form Mod. RV1006/2015 should also be completed.

In Portugal, the procedures for new joiners is as below:

- For local employees the employer needs the employee's identification card (cartão de cidadão).

In case the employer employs a foreign employee, they need follow the following steps:

- First of all, the employee must obtain his fiscal number, in the event that the individual is outside the European Union:
 - Have a tax representative
 - Full address of the residence (home country)
 - Full name
 - Passport
 - A statement signed by himself, duly authenticated and passport (this authentication can be carried out in home country)
- If the employee is from the European Union it is only necessary to have his identification card to obtain the fiscal number.

Compensation Funds

Employers are required to contribute 1% of pay (0.925% to FCT, 0.075% to FGCT) for employees to the Compensation Fund. This amount is calculated according to article 366 of the labor code which establishes that:

- the amount of compensation is equal to 20 days of basic salary and seniority bonus for each full year of seniority or fraction thereof;
- the amount of monthly basic salary and seniority bonus to be considered for the basis of calculation may not exceed 20 times the minimum guaranteed wage (€ 635, in 2020);
- the total amount of compensation may not exceed 12 times the monthly basic payment and seniority bonus of employee or, when the limit specified above is taken in consideration, 240 times the minimum guaranteed salary.

The Wage Guarantee Fund (Fundo de Garantia Salarial - FGS) is ensured by the national government. The Work Compensation Fund (Fundo de Compensação do Trabalho - FCT) and the Guarantee Fund for Work Compensation (Fundo de Garantia de Compensação do Trabalho - FGCT) are financed by companies.

Employers should make payments to the Compensation Fund between the 10th and 20th of each month.

Administration

On a monthly basis, companies are required to withhold and pay the personal income tax (PIT) due on salaries to the tax authorities by the 20th of the following month. PIT withholdings are computed on the basis of progressive tax rates.



MERCANS

The payment of social security contributions are also due by the 20th of the following month.

Remuneration Monthly Statement — Social Security (Portuguese DMR):

- The total percentage is 34.75% (in most situations), with 23.75% paid by the employer and 11% paid by the employee.
- The tax must be paid between the 10th and the 20th of the following month.
- The submission of this report must be made by the 10th of the following month.

Remuneration Monthly Statement — Tax authority (Portuguese DMR):

- The tax must be paid as per the personal income tax code (CIRS).
- The deadline for payment of withholding tax is the 20th of the following month.
- Registration is made by the employer.

Compensation Funds:

- The payments to be made by employers to the Work Compensation Fund (FCT) is 1% of the basic and daily payments for each employee covered.
- The payments should be made between the 10th and 20th of each month.



MERCANS

Payroll

The Labor Law regulates contractual relations between the employer and the employee. Accordingly, leave days, rest hours and reasons for dismissal, among others, are defined by this law.

In general, the remuneration must be available to the employee on the due date or on the previous business day. The employee is entitled to 12 months of salary, one month of holiday subsidy and one month of Christmas subsidy.

On a monthly basis, employers are required to prepare and issue payslips to employees, detailing the remuneration paid (and type of remuneration) and corresponding withholding tax and other deductions.

Usually, salary payments are made through the Single Euro Payments Area (SEPA) process.

Overtime

Employees working over the regular working time are, as a rule, entitled to overtime pay. Overtime limits are:

- 175 hours per year in micro companies or small-sized companies;
- 150 hours per year in large and medium-sized companies;
- for part-time employees, 80 hours per year or the ratio between the part-time and full-time if higher; or
- two hours per day.

Overtime pay is paid as follows:

- on business days, an additional 25% for the first hour or fraction thereof and 37.5% for the following hours; and
- on mandatory or complementary weekly rest days and bank holidays, an additional 50% for each hour or fraction thereof.

Overtime payment is based on the employee's hourly salary and calculated as follows:

- monthly base salary times 12; or
- 52 times weekly work schedule.

The employer must keep an accurate record of the employee's working time and overtime.

Employees exempt from a working time are not entitled to overtime pay for the work rendered in certain periods but, as a rule, receive a monthly allowance for such exemption.

Final Pay

On termination, an employer must pay the employee:

- his or her final salary;



MERCANS

- any accrued credits (e.g. overtime pay); and
- final salary credits arising from the termination.

Final salary credits include:

- untaken holidays and the corresponding holiday allowance;
- compensation for the holidays that would accrue in the following year if the employment agreement was not terminated (calculated in proportion to the execution of the employment agreement in the termination year) and the corresponding holiday allowance; and
- Christmas allowance proportional to the execution of the employment agreement in the termination year.

Deduction from wages is restricted and can occur only in certain situations.



MERCANS

Employment Law

Permanent employment contracts follow the general rule for civil contracts. No written document is required and the employment relationship can be proved by any means. Some types of contract must be in writing, that is, fixed-term, part-time, home-based and certain top management contracts. However, if the contract is not in writing it does not render it invalid. It can however lead to the contract's requalification into a full-time permanent one.

Although not mandatory, it is increasingly common to have permanent contracts entered in writing, as this makes it easier to determine the agreed terms and conditions. Further, the employer can take advantage in executing written contracts to simultaneously comply with mandatory information obligations and include clauses to facilitate the future management of the employment relationship.

Fixed-term contracts are only allowed if necessary to provide for temporary staffing needs or for employment policies, such as to promote the hiring of certain categories of employees (first-time jobseekers and long-term unemployed) and the start-up of new enterprises or companies. They are only renewable a maximum of three times and their duration is limited to:

- 18 months if for an individual looking for a job for the first time.
- Two years for launching a new activity of uncertain duration, starting up a new company or establishment belonging to a company with less than 750 employees or hiring a long-term unemployed person.
- Three years in other situations.
- Unfixed-term contracts are more commonly used whenever the duration of the staffing need is uncertain (for example, replacing a sick employee) and cannot exceed six years.

Parties can amend or change the contract, unless it is expressly forbidden by law. For example, as a rule, the employer cannot unilaterally reduce an employee's salary or demote him even with the employee's consent.

For collective agreements or any implied terms, the collective labor regulation instruments apply. There are two types of agreements, that is negotiated, which apply only when undertakings or employers choose to adhere to them, and non-negotiated, which directly apply to undertakings or employers.

The collective labor regulation instruments that can be negotiated are the collective agreement, the accession agreement and the arbitral decision in a voluntary arbitration process. A trade union association can enter into a collective agreement with an association of employers, a number of employers for different undertakings or with an employer for an undertaking or establishment.

The non-negotiating collective labor regulation instruments are the extension order, the working conditions order and the arbitration decision in a compulsory or necessary procedure.

Employment Obligations

In addition to workplace accident insurance, it is also mandatory for companies to manage health and safety in the workplace. Employees should also be given a medical examination upon admission to the company and at regular intervals during their employment.



MERCANS

Mandatory Accident Insurance

In accordance with the Labor Code and governed by Authority for Working Conditions (ACT), employer's accident insurance is mandatory. It is important to note that this insurance must be active from the first day of each employee's contract.

Leaves

In accordance with the Labor Code and governed by the ACT, employees are entitled to a minimum annual leave entitlement of 22 days.

In their first year of employment, employees are entitled to two working days for each complete working month, up to a maximum of 20 days. In the following years, employees are entitled to 22 days of leave, however this could change if there is a particular collective agreement.

Employees are also entitled to a holiday allowance corresponding to their remuneration.

Work Council

The right to form a works council in any company, regardless of its size, is guaranteed by the Portuguese Constitution. The initiative depends completely on the employees, which means that employers are under no obligation to implement this form of representation.

The role of a works council is advisory, aimed at safeguarding employee's interests. They are entitled to be informed and consulted on several matters regarding the overall organization, activity and company's budget, working conditions and change of the share capital. They can also control the company's management and participate in the company's restructuring process.

The employer must allow the works council to meet in its premises, either outside or during working hours (for up to 15 hours annually) provided the employees representatives give 48 hours' notice.

Works councils can be appointed for a maximum of four years. The members of the works council are elected from the lists presented by the employees, by secret and direct vote according to the principle of proportional representation.

The number of members elected to the works council depends on the company's size:

- Up to 50 employees: two.
- 51 to 200 employees: three.
- 201 to 500 employees: three to five.
- 501 to 1,000 employees: five to seven.
- More than 1,000 employees: seven to 11.

Employees can also be members of a union and can exercise their rights within the company. Unions have an important role, which includes the negotiation and execution of collective agreements, provision of economic and social services to their affiliates, and participation on the labor legislation creation process, among other things.



MERCANS

Union representatives can be elected for a maximum of four years. They have the right to hold meetings in the company, to present information directly to the employees on the company's premises and to request information regarding specific legally established situations.

All employees' representatives have special protection in matters such as change of workplace, disciplinary proceedings and dismissals.

Terminations

Employment relations in Portugal are still characterized by an almost permanent bond between the employer and the employee. However, the employer can, under certain circumstances, terminate the contract with just cause. The concept of just cause includes disciplinary dismissal and other forms of dismissal, provided that they are justified according to the law. Currently, the Labor Code foresees the following types of dismissal: dismissal based on unlawful conduct of the employee, redundancies or dismissals resulting from the elimination of jobs, and dismissal for failure to adapt.

For dismissal based on unlawful conduct of the employee, the concept of just cause is the center piece of the matter. It consists of the impossibility in practice of continuing the employment relationship due to the seriousness of the employee's misconduct. When dismissed with disciplinary cause, the employee is not entitled to any notice or compensation. However, he will be entitled to standard credits that are payable on termination regardless of its reason (prorated 13th and 14th monthly payments, unused annual leave, and so on).

Any kind of dismissal requires the previous implementation of a consultation proceeding extensively regulated in the law. The works council must be involved in the procedure and can give a written opinion, which will not prevent the dismissal.

Generally, dismissal does not require authorization from government authorities. However, if it concerns a pregnant or breastfeeding employee, or an employee on parental leave, the Commission for Equality in Labor and Employment must be notified and can give a binding legal opinion.

If the dismissal is not justified according to the law or if the employer does not comply with the proper proceeding, the termination of the contract can be considered null and void. The contract remains in force, which can lead to reinstatement or compensation.

The employee can challenge the dismissal in court within 60 days from the dismissal or six months for collective dismissals. If the court considers the dismissal unlawful, the employee is entitled to receive compensation for salaries and benefits lost while the lawsuit is pending. Additionally, the employee can choose to be reinstated with all the rights and guarantees unaffected. The employee can alternatively choose to receive compensation to be set by the court according to the specifics of the case. This can be between 15 and 45 days' basic pay and seniority allowances for each year of service, with a minimum of three months' pay. The reinstatement can be avoided by the employer if the dismissal takes place in a company with less than ten employees or if the dismissed employee is a top manager. In this case, provided the court agrees the return of the employee would be disruptive of the company's business, the compensation will be set by the court, according to the specifics of the case. This can be between 30 and 60 days' basic pay and seniority allowances for each year of service, with a minimum of six months' pay.

Settlement agreements for termination of employment contracts are quite common and must be executed in writing. Termination agreements where the employee's signature was not duly notarized can be revoked by the employee in writing to the employer up to seven days after the agreement is executed.



MERCANS

Redundancies and mass layoffs are regulated by the Labor Code and can only be applied when there are business reasons.

Employers can terminate employment contracts for business reasons by collective dismissals or individual redundancies. A dismissal is considered collective if the employer terminates, either simultaneously or within three months, the employment contracts for at least two employees in companies with up to 49 employees, and five employees in companies with 50 or more employees. If the number of employees to be dismissed falls below these thresholds, it is considered an individual redundancy.

In both cases, the dismissal must be justified by business-related reasons. That is, closing down one or more company departments or by eliminating jobs or work positions due to economic, market, technological or structural reasons.

Where collective dismissals are mandatory, the employer must first enter into consultations with the employees' representatives and the Labor Ministry with a view to reaching an agreement on the possibility of avoiding or reducing the number of employees to be made redundant.

For individual redundancies, employers must also enter into consultation with the employee to be dismissed and the employee's representative, if any. The Working Conditions Authority will participate in the proceeding if the employee requires.

In both cases, the dismissal must be authorized by the Commission for Equality in Labor and Employment for cases that involve a pregnant or breastfeeding employee, or an employee on parental leave.

An important factor in evaluating whether the dismissals are considered justified is the selection criteria used for the employees to be made redundant. Within a collective dismissal, the employer is free to set the criteria provided it is non-discriminatory and relevant. However, for an individual redundancy, the criteria is pre-set by the law whenever there are two or more employees in a comparable situation in terms of job scope within the same team or department. The criteria is:

- Worst performance appraisal.
- Worst academic or professional qualifications.
- Higher salary.
- Shorter length of service on the job.
- Shorter length of service with the company.

In both cases, following the implementation of the mandatory proceeding, the employer must give notice of dismissal, between 15 to 75 days, depending on the employee's seniority.

Employees dismissed within redundancy proceedings are entitled to statutory compensation. Portuguese regulations on compensation were extensively amended because of the agreements struck between the Portuguese Government and the International Troika for the financial bail-out. Under the new regulations, compensation for dismissal varies between 12 and 30 days' salary depending on the employee's start date and the length of service.

Parties can also sign a termination agreement at any time and without the need to justify. However, if the agreement is an alternative to redundancy, the reasons for termination must be given to the department of social security for unemployment benefit. The agreement must be in writing, signed



MERCANS

by both parties, include the signature date and the effective date, and there must be two copies. The agreement can be revoked by the employee in writing to the employer up to seven days after the agreement is executed if the employee's signature was not duly notarized.



MERCANS

Immigration

For the entry into Portugal, foreign nationals need to comply with the following conditions:

- Holder of a travel document valid for more than at least three months of the duration of the required stay.
- Holder of a visa valid and adequate for the purpose of the stay. This visa shall be required always in a diplomatic mission or Portuguese consular post abroad.
- Having sufficient means of subsistence for the duration of the stay.
- Not being registered in the SEF Integrated Information System nor in the Schengen Information System.

Visa Application Process

Residence permits, for temporary stay or short stay, to third country nationals are issued on the following general conditions only:

- Having not being subject to a removal measure from the Country and within the ban period of entry into the national territory, following a removal from the country;
- Do not have an alert in the Schengen Information System for purposes of refusing entry by any of the Contracting Parties;
- There is no indication in SEF Integrated Information System for non-admission purposes under article 33;
- Having means of subsistence, as defined by decree order of the Members of the Government responsible for home affairs and social security areas;
- Having a valid travel document;
- Having a travel insurance.

The application for a visa shall be submitted in the consular post in the usual country of residence or in the consular jurisdiction area of the country of residence.

Residency Permit

In order to apply for a residency permit, the residency visa holder should schedule and appointment through an online portal. During the appointment the visa holder should their application to a SEF's directorate or regional delegation. The residency permit application should include the following documents:

- Two recent, identical photographs, in color with blank background, and easily identifiable (only for appointments at Odivelas, Aveiro or Braga SEF bureau)
- Passport or any other valid travel document
- Valid residence visa
- Evidence of sufficient means of subsistence, as per the provisions of Order number 1563/2007, of 11/12
- Evidence that the applicant has adequate accommodation



MERCANS

- Permission for SEF to check Portuguese criminal record – except for under 16 years old
- Labor contract under the law in force
- Supporting document with the necessary information for checking the registration within tax authority
- Supporting document with the necessary information for checking the regular payment of social security



They already trust Mercans





MERCANS

What Makes Mercans your HR and Payroll Partner of Choice?

We Simplify Employment Tasks Worldwide

Everywhere for Everyone

We are a borderless people engagement enabler, driven by technology and innovation. We deliver bespoke human capital management services and global payroll solutions to empower businesses across 110+ countries regardless of their organizations' size and their industry. We pride ourselves on being global people experts with a striking local presence, committed to making your teams happy, and ensuring the consistent and sustainable growth of your organization.

Local Presence. Regional Strategy. Global Success

Supported by 500+ payroll and HR specialists with in-depth local knowledge, Mercans operate globally. Our pioneering human resources consulting services and trailblazing SaaS platforms are already satisfying 5,000+ international clients, ensuring timely measurable results and bottom-line savings. Thanks to success-oriented teams striving for excellence and taking care of our clients' tasks within budget, we have gained the trust of major multinational companies.

A Revolutionary Service Delivery System

Say goodbye to third-party service providers, offshore call centers, fragmented data, and endless chains of sub-contracts.

Mercans cloud-based SaaS Products, HR Blizz™ & Mesaar™, combine the performance of proprietary technologies with a human touch. Cost-effective, they are fully-compliant self-service tools, packed with smart built-in features for your peace of mind. All your data are integrated into single interfaces accessible from everywhere and on any device.

Trailblazing Cloud-Based SaaS Products

HR Blizz & Mesaar, our Software-as-a-Service platforms, both propose a preconfigured API integration capability with all the major global HRMS platforms, including SuccessFactors, Workday, Oracle HCM, and MS Dynamics. All Mercans systems and processes are GDPR compliant, ISO 9001, 20000, 27001 certified, and SOC 1 and SOC 2 audited. A registered Finpro expert, Mercans is also a member of the Global Payroll Association and the Global Payroll Management Institute.



Simplifying Employment
Tasks Worldwide

+1 877 MERCANS (637 2267) | Toll-Free

Europe: +44 20 328 777 62
North America: +1 646 798 5541
Middle East: +971 43 999 260
Asia: +81 50 5539 5354

info@mercans.com | mercans.com

© 2020 Mercans LLC