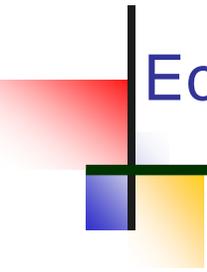


## Lecture 11

### Public Revenues: Theory and Practice – PART 5



# Economics and Public Finance – This session outline

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## **Chapter 3: Public revenues: theory and practice**

### 3.4 The tax system in Portugal and other EU countries

3.4.4 The corporate income tax (IRC)

3.4.5 The value added tax (VAT) (in Portuguese, “IVA”)

3.4.6 The special excise taxes (“IEC”)

3.4.7 An evaluation of the Portuguese tax system in comparative terms.

# Economics and Public Finance – Readings

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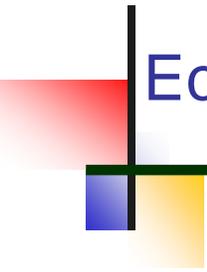
Readings English:

Summary Book Chapter 9 (translation) of Pereira and Nunes ***Economia e Finanças Públicas: da teoria à prática***. Edições Almedina

Additional info on [Taxes for economic activities in Portugal](#)

Readings Portuguese:

**Chapter 9 Pereira, Afonso et al. (2022) Economia e Finanças Públicas**, 6ª edição, p. 287-317 (relevant pages).



## Economics and Public Finance – Core topics

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- *The corporate income tax (IRC)*
  - *The value added tax (VAT): characteristics and calculation*
  - *Special excise taxes*
  - *Tax incentives and benefits*
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- Objectives of these two lectures: learn the main features of the more important taxes and understand how they pursue objectives of either efficiency or equity.

# EPF – Corporate income tax (“IRC”)

- **Key features:**

- It has a “proportional” tax **rate: normal rate 19%\*\* in 2026**
  - levied on total net income (profits\*) earned (in Portugal or abroad) by **corporate entities** (commercial companies, civil law companies under commercial status, cooperatives, public companies and other public or private corporations).
    - which are considered **resident** by virtue of having their head office or effective central management located in Portugal,
  - levied on income earned in Portugal by non-resident corporate entities.

\*profits, in the case the main activity **is industrial, commercial or agricultural**. Profits are the difference between net assets in the beginning and the end of the year.

\*\***For small and medium enterprises (SMEs)**, and tax base lower than 50.000€ the rate **is 15%**

# Economics and Public Finance – IRC Tax incentives and benefits

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- **Supported areas regarding tax incentives and benefits:**
  - Investment in Research and Development.
  - Supporting the internationalisation of enterprises.
  - Benefits to large investment projects.
  - Other kinds of benefits
    - Example: job creation for young people and long-term unemployed.
- **Note: What is the justification for such fiscal support?**

## Economics and Public Finance – Value added tax (VAT)

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- **Key features of Value Added Tax** (in Portuguese, “IVA”)
  - **The Value added tax (VAT)** is a general tax levied on **all intra-Community (EU) sales, exchanges, transfers and imports of goods, provision of services** and on all **purchases of new means of transportation**.
    - It is imposed at all stages and transactions in the economic chain of supply arising in the Portuguese territory.

## Economics and Public Finance – Value added tax (VAT)

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- *Every country in the European Union has a minimum of two rates and there is a minimum value for each:*
  - *The minimum reduced rate is 5%*
  - *The minimum normal tax rate is 15%*

# Economics and Public Finance – Rates of value added tax (VAT)

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- In Portugal, there are three VAT rates\*:
  - **The reduced rate of 6%**
    - applies to some food items, medicines (with prescription) passenger transport, non mineral water, hotels,...
  - **The intermediate rate of 13%**
    - applies to various food items, restaurants, electricity (up to 100kw/month),...
  - **Standard rate of 23%**
    - Applies to all transactions of goods and services not included in the reduced rates or exempted: namely gas, flowers, ornamental foliage and decorative floral arrangements, fuel oil and coloured diesel, etc
    - \* There are also some exemptions (e.g. self-employed workers with turnover lower than a certain amount (15.000€ in 2025))

# Economics and Public Finance – Understanding VAT

Consider a producer of footwear that purchases raw material worth €10,000+VAT, and sells footwear in the amount of 100,000+VAT. Applicable VAT tax rate (purchase, sale): **23%**. The VAT to be delivered to the State can in this particular case\* be calculated in two different ways:

a) **By the indirect *subtractive* method** (VAT received and paid).

The producer has received a VAT from sales (23.000€) and has paid VAT (2.300€). The difference (**20.700€**) should be paid to the State.

b) **By the direct method (*Value added* at the producer).**\*

Note that the value added in production is **90.000€** and  $0,23 \cdot 90.000€ = \mathbf{20.700€}$

\* We can only use the value added procedure if the VAT rates on inputs and outputs are the same.

## Economics and Public Finance – Special excise taxes (“IEC”)

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- In Portugal, there are some special excise taxes or special consumption taxes:
  - **ISP**: Tax on petroleum and energy products (always “included “in prices).
  - **IT**: Excise tax on **tobacco**.
  - **IABA**: Excise tax on alcohol and **alcoholic beverages** (including beer).
  - **ISV**: Vehicle Tax (levied on purchases of new cars, motorcycles and boats,...).
  - **IUC**: Road tax (traffic and haulage).
  - **IS**: Stamp duty (levied on various operations, official acts and documents, such as leasing of buildings, registrations and mortgages, debt related operations,...).
- *Special excise taxes may be justified for reasons of efficiency or equity (or both), or just by reasons of pure economic cash inflow (towards the state).*

# EPF – Summary assessment of the Portuguese tax system

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- From the financial effectiveness perspective:
  - taxes such as income taxes (IRS, IRC) and **VAT** and **Social Security** contributions are more productive given that they generate the bulk of all tax revenues.
- From the equity/fairness perspective:
  - the IRS is the most adequate tax, particularly, **without tax evasion** and by improving the allowed tax deductions and benefits.
  - Value Added Tax (VAT) is regressive. The existence of reduced rates on basic consumption goods diminishes the regressivity
- From the efficiency perspective:
  - VAT is a fairly efficient tax in the market of goods and services.

## EPF – Summary assessment of the Portuguese tax system

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- In the logic of the ***(Pigouvian) efficiency***:
  - Special consumption excise taxes (for instance, excise taxes on tobacco, vehicles, petroleum products) are required instruments.
  - Certain tax benefits are justified from an economic efficiency perspective.
  - Note: All other “tax expenditure” is seen in the eyes of fairness.
- From the **flexibility** perspective (automatic macroeconomic stabilization) the personal income tax is a good tax.

According to the **transparency** characteristic, direct income taxes (IRS and IRC) are good taxes, but consumption taxes are not good (VAT and excise taxes)

# Assessment of the Portuguese tax system: comparison with EU countries: income tax

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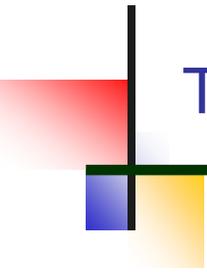
- We have seen that Portugal is within the EU group of State Members with higher top marginal income tax rates.
- Most countries as Portugal, use progressive rates and deductions. Some countries are using a **“flat rate” or almost flat rate income tax**:
  - Estonia (20%)
  - Russia (13%)
  - Ireland (20% and 40%)
- As we discussed, flat tax rates are good for efficiency, but bad for most conceptions of equity.

# Assessment of the Portuguese tax system: comparison with EU countries: value added tax

There are only 6 countries with higher normal tax rates than Portugal (3 scandinavian, Greece, Croatia and Hungary)

List of VAT rates applied in EU member countries				
Country	Member State	Standard rate	Reduced rate	Super reduced
AT	Austria	20	10/13	-
BE	Belgium	21	6/12	-
BG	Bulgaria	20	9	-
CY	Cyprus	19	5/9	-
CZ	Czechia	21	12 / 0	-
DE	Germany	19	7	-
DK	Denmark	25	0	-
EE	Estonia	22	9	-
EL	Greece	24	6/13	-
ES	Spain	21	10	-
FI	Finland	25,5	10/14	-
FR	France	20	5.5 / 10	2.1
HR	Croatia	25	5/13	-
HU	Hungary	27	5/8	-
IE	Ireland	23	9 / 13.5	4.8
IT	Italy	22	5/10	4
LT	Lithuania	21	5/9	-
LU	Luxembourg	17	8	3
LV	Latvia	21	5/12	-
MT	Malta	18	5/7	-
NL	Netherlands	21	9	-
PL	Poland	23	5/8	-
PT	<b>Portugal</b>	<b>23</b>	<b>6/13</b>	-
RO	Romania	19	5/09	-
SE	Sweden	25	6/12	-
SI	Slovenia	22	5 / 9.5	-
SK	Slovakia	23	10	-

Source: European Commission, January 2025.



## Topics for discussion

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Why are taxes necessary?

Why not replace taxes by issuing money and debt?

Who pays the most income tax: a taxpayer in Portugal or a taxpayer in Ireland?

How does the IRS compare to a taxpayer in Portugal and a taxpayer in Ireland?  
List some of the factors you should take into account to compare the tax burden between two countries?

Why are there different VAT tax rates? What objectives may countries pursue with these different rates?

# Economics and Public Finance – Fiscal glossary

Portuguese	English		Portuguese	English
Imposto sobre o Valor Acrescentado (IVA)	Value added tax (VAT)		Imposto sobre o álcool e as bebidas alcoólicas (IABA);	Excise tax on alcohol and alcoholic beverages
Imposto sobre o Rendimento das pessoas Singulares (IRS)	Personal income tax (PIT)		Imposto Sobre Veículos (IA)	Vehicle Tax
Imposto sobre o Rendimento das pessoas Colectivas (IRC)	Corporate income tax (CIT)		Derrama Municipal	Municipal surcharge
Imposto de Selo (IS)	Stamp tax/duty		Imposto especial sobre o Jogo (IEJ)	Tax on gambling inspections and checks or Special excise tax on gambling and gaming activities
Imposto Especial de Consumo (IEC)	Special excise tax Special consumption tax		Direitos Aduaneiros e Outras Imposições (DAOI)	Customs Duties and Other Charges
Imposto sobre os Produtos Petrolíferos e Energéticos (ISP)	Excise tax on petroleum and energy products		Imposto Municipal sobre as Transmissões Onerosas de Imóveis (IMT) (imposto de sisa)	Municipal tax on real estate transfer
Imposto Único de Circulação (IUC)	Road tax (traffic and haulage)		Imposto Municipal sobre Imóveis (IMI) (Contribuição Autárquica (CA))	Municipal tax on real property
Imposto sobre o Tabaco (IT)	Excise tax on tobacco		<i>Please check, the EU "Taxes in Europe" online database.</i>	