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Update

Tax

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State Budget Law Express: Startup ecosystem

Bruno Miguel Marques | bmm@servulo.com

The 2024 Draft State Budget foresees some changes for the startup ecosystem, with tax implications both for employees, in the field of personal income tax, and for companies, in the field of corporate income tax. Below we highlight the main proposals.

Stock options, subscription plans, and other with equivalent effect

- Extension of the special tax scheme for gains arising from stock option, subscription, or other plans with an equivalent effect, on securities or similar rights (henceforth just "stock option plans"), under which only 50% of such income is considered for PIT purposes and a 28% tax applies.

This tax scheme will now include those cases in which the plans are granted by entities which, in the year of its approval, are recognised as startups under the terms of Law 21/2023, provided that this is the company's first year of activity (i.e., the year of its incorporation).

The current rules only cover those cases in which the plans are granted by entities that are recognised as startups in the year prior to the approval.

- Exemption, up to the amount of 20 times the IAS, for income assessed at the time of losing the status of resident in Portuguese territory (exit tax). Such income will, however, be included for the purposes of determining the applicable tax rate to the remaining income and can only be granted once.
- Removal of restrictions on access to this tax scheme by board members;
- The application of this scheme is clarified for cases in which the stock option plans relate to shares or rights of an equivalent nature of entities with which the employer is in a group, control or simple participation relationship, regardless of their geographical location.

Reduced corporate income tax rate for the first €50,000 of taxable income

The corporate income tax rate applicable to the first €50,000 of taxable income will be reduced from 17 per cent to 12.5 per cent for entities qualified as startups that fulfil the following cumulative conditions:

- are innovative companies with a high growth potential, or the National Agency of Innovation recognized that they develop competent R&D activities, or certification of the process of recognition of companies in the technology sector;
- have completed at least one round of venture capital financing or have had contributions of equity or quasi-equity from business angels;
- have been granted funds from the Banco *Português de Fomento*, or funds managed by this entity, or by its subsidiaries, or from one of its equity or quasi-equity instruments.

We anticipate that if these three cumulative conditions are confirmed in the final wording of the state budget law, this measure will have limited impact on the startup ecosystem.