On 30th of June, the Green Tax Reform Commission presented to the Portuguese Government a preliminary draft for the Green Tax Reform, which will be subject to public discussion until 15th of August.

According to the Order that appointed the commission, this reform aims to contribute to an eco-innovation and the resource efficiency, reducing the foreign energy dependence and the introduction of more sustainable patterns of production and consumption, as well as, foster the entrepreneurship and job creation, the efficient achievement of international goals and aims and the diversification of revenue, in a context of fiscal neutrality, and economic competitiveness.

The preliminary draft of the Green Tax Reform provides several proposals and recommendations for the amendment of the current tax system, covering several sectors like: energy and emissions, transport, water, waste, urban and land planning, forests and biodiversity.

Among the various proposals and recommendations of the commission, it should be noted the most relevant:
1.º ENERGY AND EMISSION SECTOR

In the energy and emission sector the highlight is the introduction of carbon taxation. According to the preliminary draft, there must be a different taxation of CO2 emissions for sectors that are covered by the European Emission Trading System (EU ETS) and for those who aren’t (the non-ETS). Under the aforementioned draft, only the non-ETS are taxed pursuant the polluter-pays principle and through an additional tax on oil and energy products (ISP), calculated on the basis of emission factors of CO2 fixed by an energy product and having into account the legislative defined value (and periodically updated) for a tone of CO2.

Regarding Corporate Tax, the Commission also suggested the recognition of provisions established to tackle expenses due to restoring of environmental damage of the exploitation sites. The Green Tax Reform Commission proposes the establishment of an amortization period of 12.5 year for wind and photovoltaic equipment.

2.º TRANSPORT SECTOR

In the transport sector, the Commission proposes, inter alia, the introduction of tax on the air transport of passengers, in order to compensate the community for its polluting impact which, according to the said commission, will be implemented through a specific consumption tax of € 3 per flight ticket.

Also proposed is the increase of the maximum amount, of €62,500, (as acquisition value or revalued amount) above which the depreciations of electric light duty passenger vehicles are not accepted as tax expenditure, as well as the limit of such depreciations ,of € 50,000, for the plug-in hybrid light duty passenger vehicles and, also, of € 37,500, for LPG and CNG vehicles.

The Green Tax Reform Commission also proposes, on Personal Income Tax and on Corporate Income Tax, the reduction by 25% and 50% of rates of autonomous tax applicable to deductible expenses with LPG and CNG light duty passenger vehicles and to plug-in hybrid and electric light duty passenger vehicles, respectively.

It should be noted that, in the transport sector, the proposed deduction on IRS of the costs incurred with the use of public transport and the deduction broadening with expenses incurred in the acquisition of collective public transport passes for employees. In return, the Commission proposes the generalization of the application of an autonomous tax rate of 10% to the compensations granted to employees of the companies, for the rendered service, related to subsistence allowances and other expenses, in particular, with employees’ own vehicle, even if the burdens are invoiced to the client or is borne by maps, with the exception of situations where subsistence allowance are IRS taxed.
In the preliminary draft, the Commission also proposes the mark up, for tax purposes, of the cost with certain fuels (LPG and CNG) and electricity, consumed by public transport of passengers and goods.

With regards to the Vehicle Tax, the Green Tax Reform Commission proposes the increase of the said tax rate based on the CO2 emission, taking into account the large reduction of CO2 emissions on petrol and diesel vehicles over the last years.

For this purpose, the Commission pretends to create a new tier for CO2 emissions below 95 g/km for diesel vehicles.

With regards to taxis, the Green Tax Reform Commission proposes the revision of the limit of CO2, in order to grant a vehicle tax benefit and the mandatory compliance of Euro 5 or Euro 6 rules.

The preliminary draft also suggests the chance of VAT deductions on the purchase, manufacture or import, lease, use, processing and repair of electric or hybrid plug-in vehicles for touristic purposes, as well as, the tax exemptions extension on Vehicle Tax and Single Tax on Vehicle Use, established exclusively for electric, hybrid, LPG and CNG vehicles.

The outline of the Green Tax Reform intends to replace the tax benefit for end-of-life scrapping, a tax benefit that was into force until the end of 2010.

It should be noted, by its symbolism, the creation of a tax incentive, for taxpayers with organized accounts, for bike purchasing.

Some of the measures and proposed amendments are innovative and have been already put in practice in other countries, in particular, in the European-Nordic countries. It is now the moment to check whether these measures are timely and compatible with the proposals presented in the preliminary draft of the Personal Income Tax Reform, which we will discuss and analyse very soon.

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