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LEGAL UPDATE

*The State Budget for 2025:
Impacts on Labor Relations*

The Portuguese State Budget for 2025 includes some measures that impact employers and employees. Below, we summarize the key initiatives and their implications.

Meal Allowance

The meal allowance for employees remains exempt from taxes and social security contributions up to a limit of 6.00 €, but this limit increases to 10.20 € for meal allowances provided through meal cards.

Youth PIT (IRS Jovem)

This tax benefit will now apply to individuals up to 35 years old, with the duration of the benefit extended to a maximum of 10 years.

Importantly, eligibility no longer depends on educational qualifications.

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The exemption limit increases to € 28,737.5 (from 40 IAS to 55 IAS).

The phased tax exemption applies as follows:

- a. 100% in the first year of income;
- b. 75% from the 2nd to 4th year;
- c. 50% from the 5th to 7th year,
- d. 25% from the 8th to 10th year.

The 10-year period starts with the first year the young worker files a tax return for employment or independent work income (Categories A or B).

Payment for overtime work

The remuneration paid to the worker for overtime work is now subject to 50% of the withholding tax rate applicable to the monthly remuneration.

Previously, this reduced withholding rate was applied only from the 101st hour of overtime onward.

Health Insurance

When considered as benefits of social utility, expenses with health or illness insurance for the benefit of workers, retirees, or their family members, will be considered at 120% of their value for the purpose of determining the taxable profit of the company.

Company Vehicles

The autonomous tax rates on expenses related to the acquisition of passenger vehicles, certain light commercial vehicles, motorcycles, and mopeds are reduced.

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Costs with Salary Increases

Salary increases for employees with indefinite-term contracts will be considered at 200% when determining taxable profits for corporate income tax purposes. This is an increase from the previous 150% rate.

However, a cap is imposed, now equivalent to five minimum wages (€4,350 for 2025), with increases related to the minimum wage excluded from this benefit.

The incentive applies to companies that raise the average annual base salary by at least 4.7%, but only salary expenses for workers covered by a collective bargaining agreement updated within the last three years are eligible.

Additionally, the requirement to maintain salary disparities within certain limits, present in prior years, has been removed.

Productivity and Performance Bonuses

Amounts paid voluntarily by employers as productivity or performance bonuses, profit-sharing, or balance sheet gratuities will be exempt from IRS up to 6% of the worker's annual base salary.

To qualify, the employer must have implemented eligible salary increases under the new rules for 2025, referred to in previous paragraph.

These bonuses are also excluded from the social security contribution base.

Parental Leave and Childcare

The Portuguese Government intends to present a study focused on the increase in parental leave. Additionally, the Government will assess incentives for companies to create daycare facilities for the children of employees and members of statutory bodies.

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Harassment Policies

The Portuguese Government intends to implement a comprehensive strategy for raising awareness, preventing, and supporting cases of harassment and violence in the workplace, which will also emphasize occupational health, particularly regarding workers' mental health.

Additionally, the Government, in collaboration with the Commission for Equality in Labor and Employment (CITE) and the Commission for Citizenship and Gender Equality (CIG) will create a guide to protect against harassment.

Our conclusions

With the exception of the changes to the Young IRS, the measures approved in the 2025 State Budget with a direct impact on labor relations are focused on the effort to increase the net monthly income available to workers and the tax treatment of employers' expenses.

However, the 2025 State Budget includes a study on parental support policies and the strengthening of measures to prevent and combat workplace harassment.

Nowadays, many workers value work-life balance and a good work environment as much, or even more, than a salary increase. Therefore, the development and implementation of concrete measures in these areas could have a more significant and lasting impact on labor relations, leading to greater employee satisfaction and talent retention within companies.

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