

# Rödl & Partner

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ESTABLISHING CONNECTIONS

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Economic Challenges for 2021

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## → The Portuguese response to the economic fallout

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from Filipe Lobo d` Avila and André Rodrigues Barbosa,  
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The Organization for Economic Cooperation and Development (OECD) predicts that Portugal's gross domestic product will increase by only 1,7 per cent in 2021 and 1,9 per cent in 2022.

Also, according to the OECD Economic Outlook, the unemployment rate will reach a maximum of 9,5 per cent in 2021, above the 7,3 per cent expected this year, starting to decline in 2022, when it is expected to fall to 8,2 per cent.

These forecasts depend on the evolution of the pandemic. Despite the development of new vaccines, governments all over the world are still wondering what recovery could look like.

The pandemic presents unique problems when it comes to forecasting. More than ever, it is important to minimize the economic impact and prepare for the recovery.

If we look to 2020: Between the end of February and the end of April, registered unemployment rose from around 316,000 to 392,000 (+24 per cent). By the end of April, registered unemployment had risen by around 22.1 percent year-on-year. Only half of the affected workers were covered by unemployment protection.

Collective redundancies more than doubled in April (141, covering 1,328 workers) compared to the previous month, with half of them involving micro-enterprises (403 workers).

More than 100,000 companies, employing 1.3 million people (almost one third of all workers), have applied for the simplified temporary lay-off scheme, which allows companies to temporarily suspend employment contracts. For workers, the scheme involves a one-third cut in wages. Although only part of the workers in each company are temporarily lay-off, the system has resulted in a loss of income for several hundred thousand workers.

“Without enterprises there is no economy. And without economy there is no prosperity”

Many workers have also been forced to stop working to support their families after the

closure of schools, and other services. On April 10, there were 170,000 beneficiaries of an exceptional income support measure, aimed at families with children under 12 years of age, and amounting to two-thirds of the gross wage, an amount never lower than the national minimum wage, and up to three times that amount.

The truth is that the various lock-down measures in response to coronavirus have halted economic activity in certain sectors and harshly disrupted others.

In this context, Portugal decided to take a step forward and support the national economy. Without enterprises there is no economy. And without economy there is no prosperity.

With the recent return to general confinement and the imposition of door closure on many companies, the risks to the Portuguese economy have increased exponentially.

Following the outbreak of Covid-19 in Portugal, several Orders were issued by the Portuguese Government to provide economic relief that companies may encounter.

In order to mitigate the effects of the Covid-19 pandemic, the Portuguese Government approved, by Decree no. 29/2020 of 31 July, three more fiscal measures to support micro, small and medium-sized enterprises, as per the definition in article 2 of the annex to Decree-Law 372/2007, of 6 November.

The following measures are foreseen:

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1. Temporary and optional waiver of the **payment on account of IRC**.
2. Anticipated return, during 2020, of **special payments on account** not deducted until 2019, waiving the 90-day deadline counted as from the end of the sixth fiscal year following the one to which the deduction relates (general refund deadline in case of non-deduction of the special payment on account due to insufficient IRC to be paid). This measure is also applicable to cooperatives.
3. **Refund** within a maximum of 15 days, after the submission of the respective return by the taxpayer, when the withholding tax, the payment on account of IRS/IRC or the VAT assessed is higher than the tax final due.

Consequently, to mitigate the effects of the Covid-19 pandemic, the Portuguese Government has presented a Budget that combats the pandemic, protects people, and supports the economy and employment.

The State Budget Law for 2021 was already published in the *Diário da República* and came into force on 1 January.

The following measures are foreseen in the State Budget for 2021:

1. Loss Relief.
2. Permanent Establishments.
3. Extraordinary and transitional incentive arrangements to the maintenance of employment positions.
4. Temporary tax incentives for collective efficiency actions in external promotion.
5. Implementation of the QR code and the unique document ("ATCUD") as mandatory requirements for invoicing.
6. Invoicing through certified software by non-resident entities without a PE in Portugal which will practice VAT taxable operations in Portuguese territory.
7. E-COMMERCE VAT Package.

At the same time, the Government has announced a series of extraordinary business support measures to protect businesses and to save as many jobs as possible during the Covid-19 pandemic.

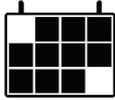
Among them, it is worth mentioning:

- Progressive Take-Up Support for Company Invoicing Breakdowns.
- Suspension of tax enforcement proceedings under way or to be initiated by AT and Social Security: from 1 January to 31 March.
- Measures to support the economy with non-repayable grants.
- Rent Payment Support.

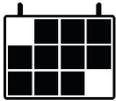
Employment
- Simplified Layoff

<ul style="list-style-type: none"> <li>- Simplified support for the maintenance of jobs for micro-enterprises</li> <li>- Traditional Layoff</li> <li>- Regime of Extraordinary support for progressive resumption</li> </ul>
Economy
<ul style="list-style-type: none"> <li>- 400 million euros: credit line for small and medium companies</li> <li>- Financial assistance for businesses hit by the Coronavirus</li> <li>- Outright grants to cover the costs of non-residential rents for micro, small, medium and individual businesses.</li> </ul>
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<ul style="list-style-type: none"> <li>- Payment in advance of the second tranche of support.</li> <li>- Payment in advance of the second tranche of support.</li> <li>- Extraordinary support for the maintenance of activity in the 1st quarter of 2021.</li> </ul>

Support – Micro and small companies

	
Who?	How much?
micro and small enterprises	<ul style="list-style-type: none"> <li>- €12.500 per micro enterprise</li> <li>- €68.750 per small enterprise</li> </ul>
	
How?	When?
Outright grants	Start of payments: First week of February

## Support – Medium-sized companies

	
Who?	How much?
Medium-sized enterprises	€168,750 per company, including extraordinary support
	
How?	When?
Outright grants	Start of payments: First week of February

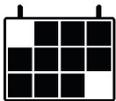
This year will bring two types of challenges: on the one hand, it will expose the economic consequences of the pandemic that have been mitigated by state support measures; on the other, it will make clear that the post-pandemic world is different, with customers and employees who have evolved beyond what was the pattern in early 2020.

As in many other countries, Portugal has experienced an unprecedented social situation in the last year. People have developed new habits as consumers, workers, students, citizens and as family members.

Companies are also experiencing a profound change in their daily lives.

“Consequently, to mitigate the effects of the Covid-19 pandemic, the Portuguese Government has presented a Budget that combats the pandemic, protects people, and supports the economy and employment”.

## Individual entrepreneur

	
Who?	How much?
Individual Entrepreneur	20 per cent of the invoicing drop
	
How?	When?
Outright grants	Start of payments: Second fortnight of February

Portugal must make a major effort to stabilize the economy, employment, and incomes to cushion the impact of the crisis and be in the best position to launch itself with strength and courage into economic and social recovery.

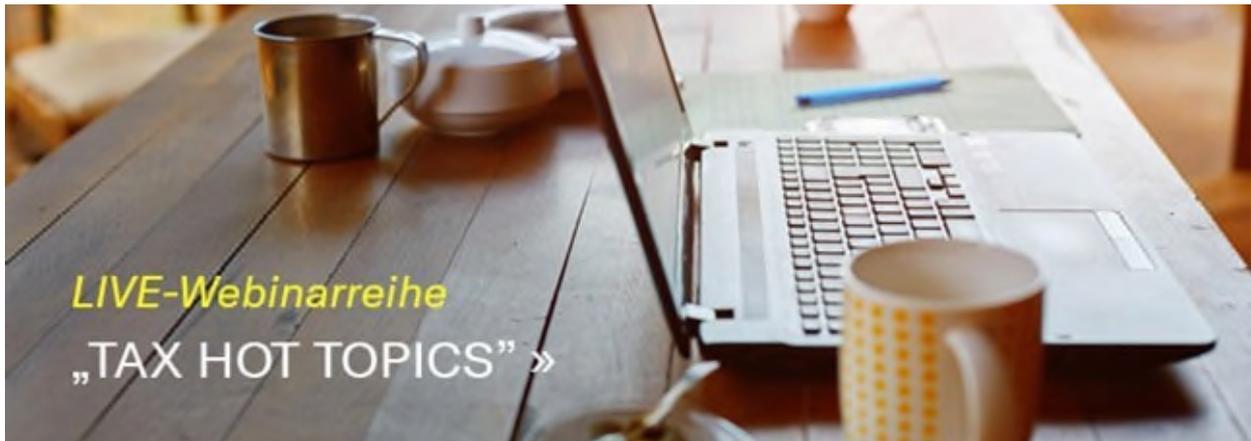
Companies will also have to adapt to the new circumstances.

Bearing in mind the new challenges facing the business sector, we have set up a department specifically geared towards business support. **Find out how you can take advantage of these government grants to start or grow your business.**

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