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Evolution of green taxation in Portugal

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- [Introduction](#)
- [Polygonal tax model](#)
- [Comment](#)

Introduction

It is generally accepted that green taxation is crucial to address the effects of climate change and global warming, as well as to promote resource allocation efficiency – even though, at the Paris Agreement level, there is no express mention of green taxation.

According to the European Commission, the recovery from the covid-19 pandemic must be "green", and in that context, the European Union's flagship Recovery and Resilience Facility⁽¹⁾ provides an opportunity to extend the scope and use of green taxes in each member state.

Therefore, the speech of the main public actors (in particular, the European Union and the member states) is no longer concerned only with the ability to raise revenues, but with their use as a way to induce environmentally friendly behaviours and the "recycling" of tax revenue associated with the taxation of non-renewable products or activities, in favour of the creation of benefits or incentives for renewable vectors, such as green hydrogen.

At the same time, the impact that the current armed conflict between Russia and Ukraine is having on the energy markets cannot be ignored, with special reflection on the level of natural gas prices, and it can be anticipated that member states will be somewhat cautious in increasing the green taxation levied on hydrocarbons – preferring, at least temporarily, measures that minimise the impact on final consumers, as has been the case with fuels. For example, in Portugal the government recently lowered the petroleum and energy products tax on fuel to the extent of the increased tax revenue it obtained through VAT.

In this sense, it is anticipated that the future role of green taxes will be more relevant than ever, which is why it is important to anticipate some of the main short- and medium-term trends. This article focuses on the Portuguese tax system.

Polygonal tax model

As the European Commission has established that green taxes include taxes on energy, transport, pollution and resources, they are a broader category than energy taxes, which are levied specifically on energy products and electricity used for:

- transport (eg, petrol and diesel); and
- fuel oils;
- natural gas;
- coal; and
- electricity used in heating.

Therefore, green taxation must fit into a wider policy context that integrates a broad range of instruments, such as:

- pricing instruments;
- subsidies, standards (including those related to environmental, social and governance measures); and
- investment in public infrastructures.

Without prejudice to the topics included in the EU Energy Taxation Directive (which is currently under revision), there is still significant scope in Portugal for intervening in their tax systems, including the set of taxes that, in some way, can be considered as having a "green" component.

Green taxation in Portugal can be broken down as follows.

General taxation of income and consumption (corporate income tax and VAT)

At the corporate income tax level, autonomous taxation is absent on the purchase of electric vehicles or even schemes such as deductible provisions for environmental damage repairs. At the VAT level, there is a tax rate reduction from 23% to 13%, applicable to the first 100 kilowatts of monthly electricity consumption (only for powers above 6.90 kilovolt-amperes).

Excise taxes (tax on petroleum and energy products)

Advanced biofuels and green hydrogen are exempt if they are duly certified with a biofuel title or certificate of origin, respectively. Electricity that is produced for self-consumption from renewable energy sources is also exempt up to a limit of 30 kilowatts of installed capacity (the measure was included in the state budget proposal for 2022, which was rejected and led to early elections, and is expected to appear again in the new proposal).

Parafiscal taxes

Parafiscal taxes include carbon tax, which is levied on tickets for commercial passenger air transport departing from airports and aerodromes located in Portuguese territories. Further, the contribution on single-use packaging applies from 1 July 2022 for packaging made of plastic or multi-material with plastics, and from 1 January 2023 for packaging made of aluminium or multi-material with aluminium.



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Comment

Given the European Union's energy transition objectives, it will be interesting to see how Portugal manages the trade-off between increasing the range of tax benefits and incentives for the different renewable segments (eg, wind, photovoltaics and renewable gases) and the need to preserve tax revenues, especially at the level of general and special consumption taxation (ie, VAT and excise taxes, respectively), which represent the most substantial part of national tax revenues.

Given the current context in Portugal, short-term tax policy options seem to point to:

- the progressive adaptation of indirect taxation to the penetration of new renewable vectors (in particular, renewable gases such as hydrogen and biomethane), with the creation of tax exemptions for the inputs of each production process (eg, electricity) in terms of excise taxes. In the case of VAT, exemptions tend to be more neutral, and it can be anticipated that they will be applied mainly from the end-consumer perspective, as is already the case in several member states (eg, VAT exemption on the purchase of hydrogen-powered vehicles);
- the proliferation of sectoral parafiscal taxation. In recent decades, Portugal has undergone a true revolution in terms of so-called "tax regulation", with the creation of parafiscal taxes in almost all sectors of activity. The regimes of such taxes are particularly complex, in terms of their interpretation and application, when compared to standard tax regimes.

However, some of these parafiscal taxes reveal positive, "green" discrimination, such as the exemption that the Extraordinary Contribution on the Energy Sector (2014) sets out for the production of electricity from renewable sources (provided that it does not benefit from a guaranteed remuneration regime); and

- the establishment of incentives specifically dedicated to new renewable vectors, such as renewable gases. In Portugal, this is exemplified by the incentive system for the support of renewable hydrogen production and other renewable gases, which was approved by Order No. 98-A/2022 on 18 February 2022 and receives funds from the national recovery and resilience plan. This incentive system, which was designed to support capital expenditure, is based on financing a set of eligible expenses in renewable gas production projects. These expenses correspond to the difference between the investment costs for the production of gases of renewable origin and the investment costs of a conventional plant for the production of hydrogen from the steam reforming of natural gas, which is identical in terms of effective energy production.

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Endnotes

(1) Established through Regulation (EU) 2021/241 of the European Parliament and the European Council, 12 February 2021.