taxnotes® international

Volume 98, Number 5 ■ May 4, 2020

Portugal's Economic Response to COVID-19: Are We on the Right Path?

by Isaque Ramos and João Rodrigues

Reprinted from *Tax Notes International*, May 4, 2020, p. 573

© 2020 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

For more *Tax Notes® International* content, please visit www.taxnotes.com.

tax notes international®

© 2020 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

Portugal's Economic Response to COVID-19: Are We on the Right Path?

by Isaque Ramos and João Rodrigues

Isaque Ramos

João Rodrigues

Isaque Ramos is a partner and João Rodrigues is a trainee lawyer with PLMJ in Lisbon.

The views expressed in this article are solely the authors' and do not necessarily reflect those of PLMJ or any other person or institution.

In this article, the authors consider Portugal's response to the economic challenges of the coronavirus pandemic and ask whether the plans make sense given Portugal's economic climate.

The world is facing a pandemic, a threat without precedent for over a century, and one that poses unparalleled challenges to both medicine and the economy.

We can already see COVID-19's effects in falling corporate profits and in the general economic slowdown across Asia, Europe, and North America. Economic forecasts point to a drop in global GDP of around 1.8 percent. The United States may see GDP fall around 2.4 percent, and the eurozone may face a 4.7 percent loss in GDP.[1]

In Portugal, experts estimate that there could be a drop in GDP of anywhere from 4 percent (the optimistic scenario) and 20 percent (the pessimistic view), depending on the interaction of several variables.[2]

Despite some initial resistance, countries' response to the COVID-19 pandemic has been more or less consistent, focusing on social confinement, temporarily shutting down nonessential establishments, and closing geographic borders. This is the deepest and most wide-ranging crisis to have hit the global economy: The consequences are still unknown, but they will undoubtedly be serious, particularly for some industries like aviation and tourism. Countries that have economies based in large part on the extraction and export of oil products will also face particularly significant effects.

One thing is certain: We all know how the economic decline began, but nobody can foresee how it will end.

What Are Countries Doing?

To mitigate the economic impact of COVID-19, governments around the world have adopted a variety of plans to support their citizens and businesses. These efforts have generally focused on two essential objectives: maintaining employment and preserving the liquidity of businesses and households.

The responsive measures span many sectors, but there has been a particular focus on labor and employment, tax, finance, and social concerns. In the tax arena, the responses countries have rolled out thus far involve three types of tax in particular:

---

[1] McKinsey & Company, "COVID-19: Briefing Materials" (Apr. 3, 2020).

[2] NECEP, "NECEP Quarterly Newsletter (1st Quarter 2020)," Católica-Lisbon (Mar. 23, 2020) (update published Apr. 8, 2020).

For more *Tax Notes® International* content, please visit www.taxnotes.com.

personal income tax, corporate income tax, and social security contributions. All of these efforts seek to achieve two basic objectives[3]:

- *Enhance business cash flow.* Efforts to enhance corporate cash flow include:
  - temporarily suspending (or even canceling) advance payments of annual taxes, something that countries including Austria and Luxembourg plan to do;
  - offering a reduction of or exemption from social security contributions, part of the relief packages that France, Germany, and other countries have released;
  - accelerating VAT refunds, a measure included in the plans of France, Luxembourg, and Romania, among others; and
  - waiving various tax penalties, which is part of many (if not most) jurisdictions' response plans, including the packages that Australia, Belgium, Chile, Germany, the Netherlands, and the United States have announced.
- *Enhance household cash flow*. This includes the deferral or waiver of tax payments and employees' social security contributions. It also includes the suspension or cancellation of real estate and vehicle tax payments, something that jurisdictions including Bulgaria and Ukraine have included in their response packages.

In parallel with these measures, but far less common, are programs aimed at encouraging consumption (such as the reduction of tax rates in China, Cyprus, and Greece) and investment (for example, the introduction of accelerated tax depreciation provisions in Australia, Singapore, and Slovakia).

Thus far, Portugal has announced tax measures that are largely in line with those of most other European countries.

[3] Cristina Enache et al., "Tracking Economic Relief Plans Around the World During the Coronavirus Outbreak," Tax Foundation blog (last accessed Apr. 15, 2020).

The Situation in Portugal

The Government's Response Plan

While forecasts initially suggested Portugal would have a budget surplus of 0.2 percent in 2020, like other countries, Portugal now faces bleak economic prospects and the likelihood of a deep recession.

The Portuguese government, again in line with most other countries, has announced a range of measures to stimulate the economy. In particular, the plan attempts to protect employment. The economic measures include:

- opening credit lines for businesses;
- instituting debt payment moratoriums;
- offering flexibility in the payment of taxes;
- reducing social security contributions;
- introducing a simplified layoff regime;
- promoting the accelerated payment of expenditures that the state has already incurred and owes to private entities;
- deferring the obligations to repay benefits/incentives received by companies (not related to COVID-19 and received by companies before the pandemic) for a period of 12 months; and
- the automatic renewal of unemployment benefits and other social supports.

The Portuguese government's plan to combat the effects of COVID-19 represents only about 5 percent of national GDP. This is significantly less than the corresponding figure in other countries — in France, Germany, and Italy, the amount is between 15 and 17 percent. However, the Portuguese tax measures themselves are similar to those that have been announced by most other countries, and they focus on immediate cash flow relief for companies and individuals.

Portugal has also announced extensions of the deadlines for fulfilling some tax obligations, including the possibility of splitting payments for some taxes — namely, VAT, corporate income tax, and personal income tax — without interest, and the deferred timelines for paying social security contributions. Ongoing tax enforcement proceedings have been suspended.

Reconsidering the Plan: Recommendations

The mere fact that so many countries — countries with different economic circumstances

For more Tax Notes® International content, please visit www.taxnotes.com.

© 2020 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

© 2020 Tax Analysts. All rights reserved. Tax Analysts does not claim copyright in any public domain or third party content.

and distinct structural problems — are adopting the same policies should make every lawmaker pause and think. Doctors do not treat different diseases (or, at least, different stages of disease marked by different symptoms) with the exact same medicine.

Indeed, Portuguese lawmakers must ask themselves whether these measures are sufficient in the short term, and above all, whether they are reasonable when analyzed from a long-term perspective, especially in a country where companies and individuals face high rates of debt. According to the most recent data, corporate debt in Portugal is more than 110 percent of the nation's GDP.

In the short term, these relief measures are — or, perhaps more accurately, seem to be — important for most companies. However, over the medium to long term, deploying these measures in a highly indebted economy may be akin to a poisoned chalice that translates into an increase in liabilities on corporate balance sheets and the deferment of enforceability. In short, some of the common responses only put off problems to a future date — when the problems will only have grown.

Therefore, we believe countries with highly indebted economies should adopt tax measures that have different characteristics to allow the economies to achieve stability in the medium and long term.

In our opinion, these countries should think about the following as they introduce tax policies in response to the pandemic:

- Offer tax exemptions rather than tax deferrals. Payments on account, taxes on the ownership of assets used for business activities, taxes on vehicles or other means of transport, and taxes based on the previous year's turnover should simply not be charged for the tax year 2019.
- Focus on responses that support investment and employment such as accelerated tax depreciation, increased depreciation allowances, and incentives to invest in productive assets and the creation or maintenance of jobs.
- Offer temporary and targeted corporate income tax reductions or exemptions for small and medium-size enterprises or for specific sectors to take advantage of the flexibility provided by the recent European Commission rules on state aid.
- Finally, if the effects of the pandemic are felt beyond the second half of 2020, lawmakers should consider policies that disregard 2020, in full or in part, for tax purposes. Two options would be to treat 2019 and 2020 as a single year for tax purposes or a loss carryback provision allowing companies to allocate losses incurred in 2020 to any surpluses from 2018 and 2019.[4]

And a special suggestion for the healthcare workers who are essential to helping us through the medical side of this crisis: Why not give them an exemption from personal income tax for all the income they earn during the pandemic or, at least, for any overtime they work during this period? This would go beyond the expressions of gratitude, although those are important too, and we believe it is a moral duty. ■

[4]Similar measures have been announced by Australia, Norway, and Singapore. *See* Singapore, Resilience Budget 2020 (2020); and Enache, *supra* note 3. Instead of adopting a carryback provision, China has extended the carryforward of losses incurred in 2020 from five to eight years.

For more *Tax Notes® International* content, please visit www.taxnotes.com.