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PART 23/29

COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU

Portugal

Country fiche: Portugal

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Portugal has a well-established workstream on monitoring and reporting tax expenditures (TEs), recently reinforced with the creation of the specialised U-TAX unit.** Portugal's Ministry of Finances reports on TEs since 2014, with disaggregated information since 2021 (relative to 2020) prepared by the Tax and Customs Authority ("AT"). The governance framework provides for evaluation procedures and monitoring obligations. The recently created U-TAX unit within the AT has reinforced the assessment framework on new and existing tax expenditures. It has recently concluded an evaluation of existing TEs to feed into an upcoming RRF-related tax reform.

- **Portugal has one of the lowest VAT compliance gaps in the EU, thanks among other factors to the extensive use of e-invoicing ("e-Fatura" system).** At 3.6% of total VAT liability, Portugal's ratio is one third of the EU's average (9.5%). The comprehensive and mandatory reporting framework significantly strengthens VAT compliance, as issuing an invoice is mandatory for every transaction and all VAT taxpayers must report every invoice issued to the Tax and Customs Authority.

Areas for Improvement

- **Efforts on monitoring compliance gaps in Portugal are so far limited to the area of VAT.** Portugal does not produce, for the moment, gap estimates in the areas of CIT nor PIT. Recent initiatives to improve tax compliance (e.g., the Simplification Agenda) could boost their impact through faster adoption of AI tools in the tax administration. Fast-ageing staff jeopardises the ability of Portugal's tax administration to cope with these challenges. Further targeting of audits can contribute to improve tax compliance and reduce the incidence of the shadow economy in certain sectors.

- **The use of tax expenditures in Portugal is widespread, though future implementation of an RRF-related reform could help simplify the legal framework.** Portuguese authorities estimate that foregone revenues from tax benefits amount to more than 7% of GDP. Preferential VAT rates in mainland Portugal lead to more than half of the estimated foregone revenues. The case of the intermediate VAT rate for restaurants has been singled out in the recent evaluation from U-TAX, which calls for applying the standard VAT rate to this kind of services. The long phase-out of the ancient "non-habitual residence" (NHR) regime is expected to continue to drag on public revenues in the coming years. Streamlining existing tax expenditures could bring Portugal's tax revenues – as percentage of GDP – closer to the EU average and cushion the medium-term effects on tax systems of an ageing population.

- **Portugal has one of the highest rates of outstanding tax arrears in the EU, due to several legal and procedural constraints.** The absence of significative improvements in recent years

calls for more proactive measures in the area.

1. Snapshot of Tax System: Tax Revenues and their Sources

The tax burden in Portugal has historically been below the EU average, with a strong reliance on consumption taxes ([1]). In 2023, total tax revenues amounted to 35.7% of GDP, 3.3 percentage points below the EU-27 average. The share of labour taxes in Portugal's tax-mix (44.8% of total tax revenues) is considerably below the EU average (51.2%), due to a comparatively low implicit tax rate on labour and low level of salaries. By contrast, the share of consumption taxes (34.1% of total) largely outpaces the EU average (26.9%). With regards to capital taxes, its share (21.0% of total) is slightly below the EU average (21.9%). Among the different tax types, VAT revenue amounted in 2023 to 25.3% of total tax revenues (EU average of 18.3%) and 9.0% of GDP (EU average of 7.1%).

Tax progressivity allows to reduce income inequality in Portugal. Labour taxation is progressive in Portugal, with a difference of 9.1 percentage points in the tax wedge ([2]) between high-income (167% of average wage) and low-income earners (67% of average wage) in 2024. Such difference is above the EU average of 7.8 percentage points. Overall, the tax and benefit system reduced income inequality (measured as the difference in Gini coefficients before and after taxes and benefits) by 8.0 percentage points in 2023, broadly in line with the EU average ([3]). Despite it, the Gini index for equivalised disposable income is among the highest in the EU (31.9% in 2024, against an EU average of 29.3%) ([4]). By contrast, the at-risk-of-poverty or social exclusion rate is, at 19.7% in 2024, 1.3 percentage points below the EU average ([5]).

2. Monitoring of Compliance Gaps

2.1. Overview

Monitoring of compliance gaps in Portugal is, for the moment, focused on VAT. A tax gap team is in place in Portugal since 2007 and it has specialised in estimating the VAT compliance gap. Like most of EU countries, Portugal does not publish an overall tax gap. For its tax gap estimation practices in the area of VAT, the tax administration uses a top-down approach, generally based on national accounts data to estimate the size of the tax base and the theoretical tax liability. Within a Tax Administration EU Summit (TADEUS) /FISCALIS project, Portugal, through its Tax and Customs

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 35.3% of GDP), followed by a stabilisation of total tax revenues at 35.2% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

[2] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.

[3] European Commission, DG EMPL calculations based on EU-SILC survey data.

[4] European Commission, Eurostat [ilc_di12]

[5] European Commission, Eurostat [ilc_peps01n]

Authority – AT, "Autoridade Tributária e Aduaneira" –, takes part in the subgroup working on the development of a common approach to estimate the tax gap for e-commerce VAT ([6]).

Ongoing efforts to improve tax compliance. Portugal's AT employs a "compliance model" that segments taxpayers by behaviour: those compliant already, those willing but struggling, those unwilling, and those deliberately non-compliant. It provides support and simplified measures to the first two, whereas more robust enforcement is targeted at the latter two categories ([7]). The undergoing Simplification Agenda ([8]) aims to improve compliance by streamlining and digitalising tax procedures.

2.2. Monitoring VAT Compliance Gap

Portugal has one of the lowest VAT compliance gaps in the EU ([9]). In 2023, Portugal had an estimated VAT compliance gap ([10]) of EUR 900 million, equivalent to 3.6% of the VAT Total Tax Liability (VTTL) ([11]). This is the 4th lowest VAT compliance gap in the EU-27 and is well below the EU's estimated average of 9.5%. The VAT compliance gap in Portugal remained in 2023 very close to the dip of 2021 (3.5%) and has decreased by 4.3 percentage points since 2019.

The *e-Fatura* system (e-invoicing) is one of the key drivers behind the positive evolution of VAT compliance in Portugal. Portugal was the first EU country in adopting, in 2008, the Standard Audit File for Tax (SAF-T), an international standard enabling the electronic exchange of reliable accounting and tax data from businesses to national tax authorities (AT, in the case of Portugal). This milestone was followed in 2011 by the introduction of mandatory certified invoicing software, which ensured standardized and high-quality invoicing data. These conditions paved the way for the launch of the *e-Fatura* system in 2013, establishing a comprehensive, digital, and highly integrated framework for invoice reporting. ([12]) More recently, further measures have strengthened compliance. Since 2023, foreign entities with VAT obligations in Portugal are also required to report their invoices directly to the *e-Fatura* system. At the same time, additional invoicing requirements, such as QR codes and the unique document code (ATCUD), were introduced, enhancing transparency, traceability, and control across the invoicing chain.

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[6] European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/3068071

[7] Government of Portugal (2025): "Relatório sobre o combate à fraude e evasão fiscais e aduaneiras 2024".

[8] For further information on the Simplification Agenda: https://www.portugal.gov.pt/download-ficheiros/ficheiro.aspx?v=%3d%3dBQAAAB%2bLCAAAAAAABAAzNDExtAAAvfsX6AUAAAA%3d

[9] European Commission: Directorate-General for Taxation and Customs Union, Syntesia, and Center for Social and Economic Research (CASE), *VAT gap in Europe – 2025 report*, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/7868422.

[10] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[11] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[12] With the data collected through the *e-Fatura* system, the AT has developed automated controls—known as the Alerts and Discrepancies system—designed primarily to promote voluntary compliance with VAT obligations. This system relies on simple and user-friendly digital interactions with taxpayers, helping them identify and correct errors or omissions and explain any mismatches detected between their tax returns. When discrepancies are not resolved, the system triggers automated procedures that may lead to tax assessments and the application of fines to taxpayers who remain non-compliant.

Other factors have also contributed to the recent evolution of VAT compliance. While the growth of recreational, restaurant, and accommodation services in household final consumption exerted upward pressures on the VAT compliance gap, their impact was lower than in 2022. Together with a very marginal increase in the share of services in gross value added (+0.1 percentage points) ([13]) and a significantly lower growth rate in tourism demand compared to 2022 (11.0%, down from 72.4%), these developments likely contributed to the observed decrease in the VAT compliance gap.

In 2023, VAT losses due to Missing Trade Intra-Community (MTIC) fraud ([14]) were estimated at around EUR 400 million in Portugal, marked by a moderately increasing trend. While experiencing some fluctuations over time, the VAT losses due to MTIC fraud have increased by around EUR 100 million between 2010 and 2023 ([15]).

2.3. Personal and Corporate Income Tax Compliance Gaps, and Measures of the Shadow Economy

The European Commission is not aware of any CIT and PIT compliance gap estimation activities in Portugal at the time of writing this document. Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and monitoring tax compliance gaps can support tax administration in assessing the effectiveness of their tax policy actions.

European Commission's estimates suggest a CIT compliance gap in Portugal in line with the EU average. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using national accounts data, a CIT compliance gap of 8.3% of collected taxes (reference year 2018, using the GVA-based methodology) is estimated for Portugal. It ranks 10th among 23 Member States with available estimates ([16]). Based on the same methodology, the (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States.

The size of the shadow economy in Portugal is slightly below the EU average. In 2022, the shadow economy in Portugal represented 15.7% of its GDP, according to estimates by Schneider, F.

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[13] Services are typically harder to tax effectively compared to traditional goods.

[14] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

[15] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.

[16] European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0541549. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

and Asllani, A. for the European Parliament ([17]). This ratio is slightly below the EU-27 unweighted average (17.6%), thanks to a steady decline in recent years (19.4% of GDP in 2012). Among the main drivers of the shadow economy, the mentioned report attributes the major impact to self-employment and indirect taxes. The European Labour Authority -ELA ([18]) estimates that waged employment accounts for 54% of undeclared labour input in Portugal and self-employed for 46%. At sectoral level, the ELA points at a higher incidence of undeclared work in hospitality (20%) and construction (15%). Importantly, a significant portion of the residential rental market operates informally. An audit by the General Inspectorate of Finance (IGF) ([19]) found that as many as 60% of tenants did not have a rental contract registered with the tax authorities, and 25% of landlords, with supply contracts for various items/units, do not declare activity.

2.4. Other Compliance Gaps

There is currently no public information or evidence that Portugal estimates other tax compliance gaps. There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Portugal has a comprehensive reporting on tax expenditures (TEs) based on a legal mandate. Portugal's Ministry of Finances reports on TEs since 2014, with disaggregated information since 2021 (relative to 2020) prepared by the AT. This reporting obligation stems from Article 15-A of the Tax Benefits Statute, according to which the report must be submitted to the Parliament in the first half of the year ("*Relatório de Despesa Fiscal*" – Tax Expenditures Report) ([20]). The report is very comprehensive and includes information of TEs by concerned tax (PIT, CIT, VAT, excises, stamp duties, vehicles and property), type of benefit (exemption, deduction to taxable income, deduction to liability, deferment and preferable rate), function (general services, defence, education, health, etc.), and sector (state, regional administration and local administration). The report relies on the "revenue forgone" method, which is estimated *ex post* and measures the amount of lost revenue as a result of a given benefit, being a static method that assumes taxpayers' behaviour does not change over time. The report considers a TE an explicit concession that departs from what is considered a generally applicable tax provision under the existing tax law.

The Tax Expenditure Report distinguishes between two types of tax expenditures:

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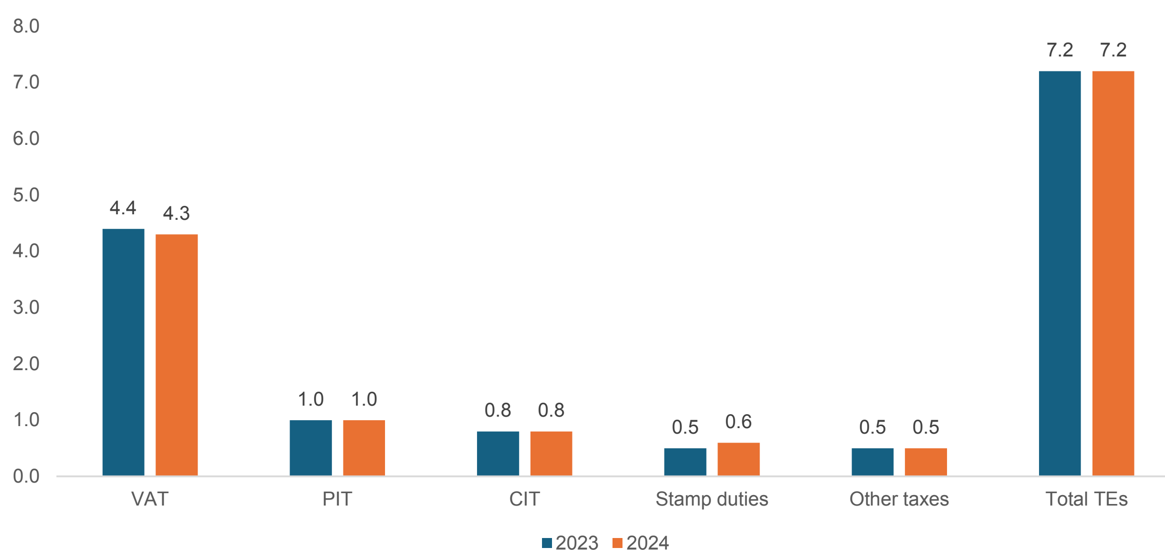
[17] European Parliament (2022), *Taxation of the informal economy in the EU*.
https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf
[18] European Labour Authority (March 2023): *Factsheet on undeclared work – Portugal*.
https://www.ela.europa.eu/sites/default/files/2024-02/PT-UDW_factsheet-2023-fin.pdf
[19] *Relatório sobre o Combate à fraude e Evasão Fiscais e Aduaneiras 2023*.
[20] See the last edition, published in June 2025 (reference year 2024).

- Structural tax reliefs, which are permanent features of the tax system, such as those for avoiding double taxation or ensuring progressivity. In 2024, 241 tax relief measures were classified under this category (of which 77 are quantified), with an estimated impact of EUR 5.4 billion (71% of it in the area of PIT).
- Tax benefits, which concern exceptional measures aimed at non-fiscal policy goals. In 2024, 540 tax relief measures were classified as tax benefits (of which 384 are quantified), with an estimated impact of EUR 20.4 billion.

In 2024, foregone revenues due to tax benefits were equivalent to 7.2% of GDP. In the 2025 edition of the report (with reporting year 2024), 461 (59%) out of 781 tax reliefs were quantified. The rest were not quantified for lack of information. Both quantified and non-quantified tax expenditures are listed in an annex of the Tax expenditures Report. In 2024, total tax benefits amounted to EUR 20.4 billion, a 5.7% increase compared to 2023. This represents 7.2% of GDP, a constant share compared to the previous year ([21]). VAT accounted for the largest portion of tax benefits - over 60% - with reduced VAT rates making up almost all this expenditure. Income taxes followed, totalling EUR 4.9 billion, of which EUR 2.7 billion came from PIT and EUR 2.2 billion from CIT. Overall, tax benefits by main tax types remained broadly stable compared to 2023 (see Figure 1).

Figure 1: Tax Benefits in Portugal, % of GDP.



Source: Own elaboration with data from *Relatório de Despesa Fiscal 2024*.

Reduced VAT rates are extensively used in Portugal. According to the Tax Expenditures Report, TEs in the area of VAT are estimated to amount to EUR 12.2 billion in 2024, nearly 60% of the total. Among them, reduced VAT rates (6%) in mainland Portugal are estimated to lead to foregone revenues of EUR 9.8 billion, while intermediate VAT rates (13%) in mainland Portugal led to foregone revenues of around EUR 1.5 billion. Despite the high share of consumption taxes in Portugal's tax mix (see Section

[21] Looking into a longer timeframe, this ratio represents the highest value since estimates on TEs are produced (2015). However, a break in the time series took place in 2023 regarding the treatment of the VAT, which means that data since 2023 are not fully comparable with those before 2023.

1), the implicit tax rate on consumption (16.1%) is below the EU average (16.4%). To a large extent, this seems to be explained by the extensive use of reduced VAT rates. See section 3.2 for further details.

The ancient "non-habitual residence" (NHR) regime continues to be the main TE in the area of income taxation. Portugal's Tax Expenditures Report estimates in above EUR 1.5 billion the cost of the NHR regime, an inpatriate scheme revoked by the 2024 State Budget with a phasing-out period of up to 10 years. Under it, some foreign incomes are exempted, and domestic incomes are taxed at a 20% flat rate. The regime continues to apply to individuals registered as NHRs by 31 December 2023, up to the completion of 10 years of duration; and for individuals becoming Portuguese tax residents by 31 December 2023, or individuals holding a valid residence permit by the mentioned date, as long as they had registered as NHRs by 31 March 2025. The rapid growth in the number of beneficiaries since the COVID-19 pandemic (estimated foregone revenues grew by 72% between 2020 and 2023), coupled with concerns about its regressivity and serious side effects on the housing market, led to the revision of the NHR regime in the 2024 State Budget, with more restrictive rules ([22]).

Several tax expenditures in PIT disproportionately benefit higher-income households and increase income inequality. According to EUROMOD simulations conducted by the JRC and presented in the last European Semester's country report ([23]), the five top deciles in the income distribution are estimated to experience an increase in their mean disposable income by more than 5% thanks to PIT tax expenditures in force ([24]). By contrast, gains for the two lowest deciles from these tax expenditures are below 1%, although low-income taxpayers benefit from other measures that are not counted as tax expenditures but are rather considered to be part of the basic tax structure. Work-related tax expenditures (tax allowances for employees and the self-employed) are the most regressive, followed by pensioner tax allowances and the general-household-expenses tax credit.

Portugal's Recovery and Resilience Plan (RRP) envisages a legislative reform to simplify tax expenditures. As outlined in the RRP, an independent tax policy unit (U-TAX) within the AT was created in February 2024 with the mandate to systematically monitor and evaluate new and existing tax benefits and to contribute to the design, implementation and impact evaluation of tax policies. U-TAX started to work in September 2024 on reviewing existing tax benefits in the areas of VAT, PIT and CIT, with the aim to feed recommendations on their continuation, amendment, or elimination into the upcoming tax reform. Following U-TAX recommendations, a revision of tax expenditures' legal framework is due in 2026, according to the Portuguese RRP.

As part of this endeavour, an *Assessment Report on Tax Expenditure in Portugal* was published in June 2025 ([25]). The U-TAX's report provides an evaluation of 31 representative tax benefits, with an aggregate foregone revenue estimated in EUR 15.6 billion (i.e., 76% of total tax expenditures in 2024).

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[22] The new regime (tax incentive for scientific research and innovation, "IFICI") still aims to attract entrepreneurs and high qualified workers to the country, being applicable to individuals who become residents in Portugal for the purpose of developing certain qualifying activities, from January 2024 onwards, and have not been resident in Portugal in the previous 5 years. IFICI allows for a 20% flat tax rate on labour / professional income derived from qualifying activities, for a maximum of 10 consecutive years. The regime is non-cumulative with other tax regimes, such as *IRS Jovem* or NHR regimes.

[23] European Commission's 2025 Country Report – Portugal

[24] Caveat: the NHR regime is not included in this estimate.

[25] U-TAX (2025), Assessment Report on Tax Expenditure in Portugal.

Out of them, U-TAX recommends modifications in 25 tax benefits that would allow an estimated reduction in the cost of tax expenditures of EUR 1.5-1.8 billion. Among these recommendations, the most important from a quantitative point of view are the upgrade of the VAT rate for restaurants from the preferential 13% rate to the standard 23% (estimated savings of EUR 1 000 million) and the suppression of the indirect part of R&D incentive SIFIDE II ([26]) (estimated savings of EUR 400 million).

Other international organisations, such as the International Monetary Fund, have echoed concerns related to Portugal's use of tax expenditures. In its 2024 Article IV Report ([27]), the IMF recommends Portugal a comprehensive tax reform aiming at simplifying the system and significantly reducing tax expenditures, so that it can generate significant fiscal space for higher public investment. The IMF is critic, in particular, with the use of age-based preferential tax rates, as they are costly and raise threshold and equity issues while their effectiveness in curbing emigration is uncertain. The IMF also considers that reintroducing preferential tax rates for foreign professionals may attract additional skilled workers but will further distort the tax system and may exacerbate housing affordability issues.

3.2. VAT Policy Gap

The VAT policy gap ([28]) in Portugal was slightly above the EU average in 2023 ([29]). The level of the VAT policy gap in Portugal was estimated that year at 51% of the notional ideal revenue ([30]) (EUR 26 billion), the 7th largest among EU Member States, in line with the EU VAT policy gap of 51%. The VAT policy gap in Portugal increased by around 1.5 percentage points compared to 2022, and by almost 1 percentage point compared to 2019.

The VAT exemption gap ([31]) was slightly below the EU estimate in 2023. It amounted to 37% of the notional ideal revenue (EUR 19 billion), 0.5 percentage points below the EU average. This represents an increase compared to 2022 (more than 3 percentage points), likely explained by the introduction in 2023 of an increase in the VAT exemption threshold to EUR 13 500 for the SME special exemption scheme. Despite fluctuations, the VAT exemption gap in Portugal has traditionally remained below the EU average. That was also the case in 2019, when it stood at 36%.

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[26] The so-called "Indirect SIFIDE" is tax credit from the participation in capital of R&D institutions, and investment funds financing other firms on their R&D activities. The suppression of "Indirect SIFIDE" has been included in the 2026 State Budget but it is not part of the 2026 Budget Law. The government has credibly announced that this measure will be legislated through 2026, and it has an estimated revenue increasing impact of EUR 124 million. See *Quadro 3.2* of: https://www.eo.gov.pt/politicaorcamental/OrcamentodeEstado/OE2026_doc16_Relatorio.pdf

[27] https://www.imf.org/en/Publications/CR/Issues/2024/10/01/Portugal-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-555720

[28] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

[29] Estimates presented in this section come from the current VAT gap report, see European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[30] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

[31] The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

The national policy-driven VAT exemption gap ([32]) of approximately EUR 6 billion, was estimated in 2023 at 12% of the notional ideal revenue, while the overall EU estimate was 11%. This represents a considerable increase compared to 2022 (more than +4 percentage points) and a slightly more moderate increase compared to 2019 (+3.5 percentage points).

In 2023, Portugal's VAT rate gap ([33]) was 2 percentage points above the EU average. It was estimated at 14% of the notional ideal revenue, compared to 12% for the EU-27 overall, amounting to EUR 7 billion ([34]). It has decreased compared to 2022 (-2 percentage points), but remained relatively stable compared to 2019 (decrease by less than 1 percentage point).

Preferential VAT rates have overall a progressive effect in Portugal. A simulation of the distributive impact of preferential rates using EUROMOD for 2019 finds that preferential VAT rates have a positive redistributive effect in Portugal ([35]). U-TAX ([36]) points at similar findings.

Portugal's U-TAX has assessed the efficiency of VAT preferential rates in the context of a legislative reform envisaged in the Recovery and Resilience Plan. As explained in the previous section, Portugal's RRP includes a legislative reform to simplify existing tax expenditures. An independent assessment on tax expenditures ([37]) has been carried out by the specialised unit U-TAX, which has issued a set of recommendations, some of them are due to feed into the outstanding reform. In the area of VAT rates, the report draws different conclusions with regards to the use of reduced rates (6%) and intermediate rates (13%), both preferential vis-à-vis the standard rate of 23%:

- 6% reduced rate applies to food commodities, pharmaceuticals, books, agricultural inputs, hotel accommodations, and certain cultural activities, among other goods and services. The U-TAX finds that reduced rates mostly benefit low-income households (e.g., differences in VAT burden relative to income, reduction of Gini index and tax regressivity). Hence, it does not recommend specific reforms in this area.
- 13% intermediate rate applies mostly to restaurant and catering services, and to certain foodstuffs, agricultural inputs, wine, and specific entertainment activities. The U-TAX finds that benefit accrues mainly to higher-income households and tourists, raising concerns about efficiency and fairness. Aligning the restaurant rate with the standard VAT rate (23%) could yield substantial fiscal savings (above EUR 1.0 billion), with minimal impact on increasing the

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[32] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

[33] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

[34] Estimates in the *VAT gap in Europe* report do not necessarily follow the same methodology as the used by national authorities in their tax expenditures report. That may explain potential discrepancies with the results presented in section 3.2.

[35] Turrini, A., Guigue, J., Kiss, Á., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M., Lanterna F.; (2024). Tax Expenditures in the EU: Recent Trends and New Policy Challenges. European Economy-Discussion Papers, (212).

[36] Assessment Report on Tax Expenditure in Portugal.

[37] Ibidem.

regressivity in VAT and inequality in household income and potential carry modest negative effects on GDP and employment.

As a result, the U-TAX recommends upgrading the VAT rate for restaurants and catering from 13% to 23%.

4. Effectiveness of Tax Collection and Recovery Systems

Portugal received in 2025 a Council Specific Recommendation ([38]) to improve the effectiveness of the tax system, particularly by strengthening the efficiency of its administration and reducing the associated administrative burden. The present section discusses different aspects on tax collection and tax recovery that directly impact on the effectiveness of the tax administration.

4.1. VAT Collection

The 2022 report on VAT administration ([39]) contained some recommendations to Portugal and stressed some possible areas for improvement, based on a 2019 survey that covered 2016-2019 ([40]); a recent 2025 survey provides further insights:

- Portugal could benefit from more consistency in the preliminary checks before VAT registration. Portugal does not keep a record of applicants to whom registration has not been granted, does not cross-check the information held in the VAT registration database against third-party information sources, and does not integrate a risk assessment procedure in the registration process. However, they link the IT registration information system with other subsystems of the tax administration, such as filing and payment, collection and audit.
- Portugal's tax administration does not have a tax compliance improvement plan. However, the Ministry of Finances sets targets for VAT compliance, prepares a compliance plan that is publicly available, and publishes an annual activity report.

Portugal showed strong performance or good practices in some areas:

- Portugal provides the following services to taxpayers: a publicly available service delivery channel strategy or a catalogue of services offered to taxpayers, procedures ensuring regular and systematic updates of information on VAT rules for taxpayers, information on VAT rules available in foreign languages, a dedicated information channel for (M)OSSservice delivery standards in relation to the time taken to respond to taxpayers' enquiries and simplified record-keeping and reporting arrangements available to small taxpayers.
- Portugal's accounting systems interface with other accounting systems and include procedures to systemically review the taxpayer record to correct any eventual accounting errors.

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[38] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Portugal.

[39] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

[40] Portugal has recently replied to the 2025 survey.

- Portugal's database of VAT-registered taxpayers includes complete information about the taxpayer when registering a new VAT payer.
- Portugal developed a dedicated mobile app, *Situação Fiscal – Pagamentos 23*, providing complete information on VAT payments and integrating a digital wallet to simplify mobile payments.

In 2024, the General Inspectorate of Finance (IGF) conducted two VAT-related audits ([41]). One audit of VAT refund systems found deficiencies in AT's risk-selection matrix. Recommendations called for a better targeting of high-risk refund claims, homogenized correction methodologies, and adjustments to suspension periods and statutory interest rules. A second audit focused on taxpayers with VAT credit institutionalized recommendations around risk-based detection criteria, enabling better identification of suspicious credits according to activity type, prior inspections or timing of credits. The audit also urged improved tracking of the temporal origins of VAT credit to limit late-stage corrections.

Despite recent improvements, the cost-of-tax-collection ratio in Portugal remains high. Despite having decreased significantly in recent years (from 1.1% of total tax collected in 2020 to 0.9% in 2023), Portugal's cost-of-tax-collection ratio remains slightly above the unweighted EU average (0.8%) ([42]). Salary costs as a share of total tax-collection costs remained low, while ICT operating costs are increasing (from 5.0% of total operating expenditure in 2020 to 13.3% in 2023). Some improvements in this area could be made to bring Portugal in line with best practices across the EU, for example, by increasing the digitalisation of the tax administration and working with other Member States to collect unpaid fines. ([43])

4.2. Tax Recovery

Portugal's administration has moved toward risk-targeted enforcement (targeting complex fraud and informal economy), using audit selection and profiling techniques consistent with international best practice. The last edition of the annual report on tax fraud and evasion ([44]) shows that enforcement prioritised high-complexity fraud rather than comprehensive collection actions. The increasing use of IT tools, including mandatory e-invoicing (*e-Fatura* system), alerts and discrepancies system and pre-filled tax returns, has improved early detection and tracing. These systems enable automated reminders, faster cross-checks (banking/SAF-T/fiscal files) and improved identification of suspicious transactions or late-payer patterns.

The percentage of outstanding tax arrears in Portugal remains high. At 39.6% outstanding tax arrears remained among the highest in the EU-27 at the end of 2023, despite a slight reduction from

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[41] Government of Portugal (2025): "Relatório sobre o combate à fraude e evasão fiscais e aduaneiras 2024".
[42] OECD Tax Administration Series Database.
[43] Currently, Portugal is working on implementation of behavioural approaches for reducing administrative burden and strengthening tax compliance - together with Belgium and Austria. A digital dashboard is expected to facilitate the deployment of targeted interventions and monitor and evaluate their results. The project has been implemented with support from the European Commission's Technical Support Instrument (TSI).
[44] Ibidem.

45.6% in 2021 ([45]). This rate is above the EU average of 30.7% and remains above the pre-COVID-19 values. It must be taken into account that Portugal does not have a practice of writing off tax debts. About 60% of the stock of tax arrears concern the business sector in the areas of CIT and VAT. In addition, the percentage of tax arrears that is still considered collectable at the end of the year is quite low (30.6% in 2023). This is explained by several legal and procedural constraints, such as the absence of a compliance window, the prohibition of forced sale of primary residences, or certain court rulings that have limited the number of cases estimated time-barred thereby increased the volume of arrears classified as uncollectible. These drivers are complemented by other systemic issues such as the fact that about 45% of the tax-enforcement processes are related to debts managed by external entities. Portugal authorities claim that the data they report to the OECD are not comparable with other EU countries because of these reasons.

Portugal has strengthened internal controls for the timely and effective execution of recovery assistance requests from other Member States. While controls in 2020 were basic, a new IT system introduced in 2021 now provides real-time monitoring of pending cases. Case officers can track their allocated requests, while Central Liaison Office (CLO) managers have a global view of all requests. Annual performance goals are set for the CLO and officials, monitored by the central department, and results feed directly into performance evaluation and career progression. As a requested Member State, Portugal largely respects the deadlines set by the Regulation, with only minor exceptions.

The same rules and practices apply across all main taxes (VAT, income taxes, excise duties and other national taxes). When multiple proceedings are brought against the same debtor, the Code of Tax Procedure and Process allows cases to be joined if they are at the same stage. Recovery of these taxes falls under the competence of the same authority, the Portuguese Tax and Customs Authority.

Portugal has a current tax recovery strategy/plan and publishes a regular tax recovery activity report. The annual report on fight against fraud and tax and customs evasion, "*Relatório sobre o Combate à fraude e Evasão Fiscais e Aduaneiras*", is a comprehensive reference on the matter ([46]).

Average times to decide at administrative level on contestations of tax claims in Portugal remain relatively long, though trends differ across tax types. For VAT, the duration improved in 2023 (8.3 months) but rose again in 2024 to nearly 10 months, showing limited structural progress. For personal income tax, times declined steadily from 7.7 months in 2022 to 6.6 months in 2024, indicating gradual efficiency gains. By contrast, corporate income tax displayed marked volatility: after falling sharply in 2023 (8.8 months), decision times rose again in 2024 to over 12 months, exceeding the 2022 level. Excise duties remained comparatively faster, fluctuating within a 5 to 7-month range without a clear trend. These timelines reveal uneven improvements and persistent bottlenecks in VAT and CIT, while no data were provided on the time needed for a final decision on contestations at administrative or court level, which makes it difficult to fully assess the overall efficiency of the dispute resolution and recovery process.

[45] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org

[46] Latest edition: "Relatório sobre o combate à fraude e evasão fiscais e aduaneiras 2024".

There is no specific legislation on cooperation between insolvency administrators and the tax recovery authorities. Nevertheless, tax authorities are allowed to exchange information with insolvency administrators concerning assets that could be used to recover unpaid claims in insolvency proceedings. However, this exchange does not cover information obtained from other Member States under DAC or other EU legislation.

Portugal's Tax Authority combines two lines of action to try to reduce the stock of tax arrears ([47]): active pursuit of collectible debts and systematic identification of uncollectible ones. Measures include strengthening monitoring of large debtors, increasing the use of electronic tracing of assets, and intensifying collaboration with insolvency administrators. The report also notes efforts to clean up the balance sheet by writing off debts that meet legal criteria for non-recoverability, thus allowing resources to focus on cases with real recovery prospects. This dual approach is presented as essential to improving the credibility of public accounts and the efficiency of tax enforcement. In their reply to the 2025 Survey on national tax recovery prepared by the European Commission, the tax authorities explained that there is no tax recovery plan, but instead they publish a regular tax recovery activity report. To increase the rate of successful recovery actions, Portugal is encouraged to adopt a legislation allowing the possibility to allow to take precautionary measures before there is an assessment or another title permitting enforcement, when on-going investigations will probably result in a tax claim.

4.1. Use of Directive on Administrative Cooperation (DAC) ([48]) Instruments and Data ([49])

Portugal uses extensively DAC1 ([50]) and DAC2 ([51]) data for assessing taxation on individuals, but also company taxation where relevant. DAC1 (categories of income) ([52]) and DAC2 (financial accounts) data are currently used for awareness campaigns, voluntary compliance programs, notification to generate disclosure, internal risk assessment ([53]), and audits, where relevant, for most of the categories of income concerned. Data are used in the field of personal income tax, inheritance or wealth tax and properties taxes, with a significant increase in the tax base and tax assessed. Moreover,

[47] Ibidem.
[48] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended
[49] Source: Yearly Assessment 2025 – Subject to confidentiality clause on DAC art. 23a
[50] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC
[51] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation
[52] Income from employment, Director's fees, Pensions, Life insurance products, Immovable properties
[53] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

Portugal uses extensively the information from DAC1 and DAC2 for tax recovery purposes, which is particularly relevant to reduce tax gap.

Data matching rates concerning individuals, which are very relevant to measure the efficiency of the use of data ([54]), are above the EU average. In Portugal, the average matching rate measuring success in identifying taxpayers with DAC data for the year 2024 is 93% for DAC1, and 97% for DAC2, while the EU-averages ([55]) is 84% and 87%, respectively.

Portugal uses DAC3 ([56]) (rulings) and DAC4 ([57]) (country-by-country report) data for risk-analysis purposes in the field of corporate income taxation. DAC3 and DAC4 reports are routinely matched, for identifying the relevant taxpayers. The matching rate is 100% for both DAC3 and DAC4, meaning that all the reports received are linked to taxpayers relevant for tax investigations.

Similarly, Portugal has increased the use of DAC 6 ([58]) data. Portugal routinely matched the whole data set available for identifying the relevant taxpayers. The process of identification is manual as the number of reports received is too low to implement automations. DAC3, DAC4 and DAC6 data is mainly used for risk assessment (including assessing high-level transfer-pricing risks and other risks related to BEPS and tax-harmfulness of arrangements reported, risk of non-compliance by members of the MNE Group with applicable TP rules); economic and statistical analysis; further enquiries into the MNE Group's transfer-pricing arrangements or into other tax matters in the course of a tax audit; audits limited to specific categories of transactions or general audits. DAC 6 has been an important source of information for detecting and controlling abusive tax planning mechanisms, which result in the application of the General Anti-Abuse Rule.

Portugal makes regular use of advanced cooperation instruments provided for in DAC, such as simultaneous controls. The tax increases derived from these coordinated activities help to reduce the tax gap. Looking at the past three years, Portugal initiated two simultaneous controls and was involved in 2024 in eight other cases initiated by other Member States, being a relatively active user of these tools among the Member States.

In conclusion, Portugal uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC. Particularly advanced in processing and using systematically data related to individuals, with a view to identifying critical situations that could affect its tax base, Portugal also makes appropriate use of DAC data in terms of risk assessment in the fields of corporate income taxation, and also of DAC1 and DAC2 data for international recovery of taxes

[54] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024

[55] Income from employment, Pensions, Director's fees, Ownership and income from Immovable properties

[56] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

[57] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

[58] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

purposes. Furthermore, it is an active player in using regularly the instruments of advanced cooperation tools like simultaneous control.

5. Digitalisation and Compliance

Portugal received in 2025 a Council Specific Recommendation ([59]) to improve the effectiveness of the tax system, particularly by strengthening the efficiency of its administration and reducing the associated administrative burden. The present section discusses different aspects on digitalisation and compliance risk management that directly impact on the effectiveness of the tax administration.

5.1. Digital Transformation, Skills, and Culture

Portugal is rolling out a digital transformation strategy. Portugal has developed a strategy for digital transformation of its tax administration. and has developed a strategy to build a digital culture within the administration but has not identified the future skills required by the administration for a successful digital transformation. The ongoing implementation of different measures as part of the recovery and resilience plan is expected to improve the performance of Portugal's tax administration.

Among other simplification measures, the Portuguese Government has made a significant effort to increase the use of digitalization on various taxation procedures. In January 2025, the Council of Ministers approved the above-mentioned Simplification Agenda including 30 measures, some of which aim at digitalizing procedures. For example, this includes the automatic and simplified communication of Multipurpose Disability Medical Certificate and, therefore, ensure that interested taxpayers can have easy access to all tax benefits to which they are entitled ([60]).

Citizens can access tax services through *Chave Móvel Digital* ([61]), *Cartão de Cidadão* or EU eID ([62]). It partially applies the Once-Only Principle, for example, income tax filing or integration with other public databases but citizens and businesses may still be asked to re-submit data already held by other bodies, specially between municipal and national services. This indicates that the efforts of the Portuguese tax administration to digitalize various procedures may be having a positive impact.

5.2. Front-end Digitalisation

5.2.1 Pre-filling

Portugal provides pre-filling facilities for tax returns, using data the tax administration already has. The service is available to residents meeting certain conditions such as income only from Portuguese sources or no complex deductions. This comprises personal income tax (through a system

[59] Council of the European Union (2025): Council Recommendation on the economic, social, employment, structural and budgetary policies of Portugal.
[60] https://www.portugal.gov.pt/pt/gc24/comunicao/noticia?i=aprovada-agenda-para-a-simplificacao-fiscal
[61] Autenticacao.gov.pt
[62] https://www.portaldefinancas.gov.pt/pt/home.action

known as *IRS Automático*), corporate income tax and VAT tax returns ([63]). In fact, Portugal was one of only five Member States that provided pre-filling facilities for these three tax types in 2022. This indicates that there is a decreased burden of compliance on taxpayers, increased level of tax certainty for both taxpayer and tax administration, as well as a lower chance of filing errors. In addition, with the support of the Recovery and Resilience Facility, Portugal has deployed pre-filling services for the stamp duty and the municipal immovable property tax. According to a recent Eurobarometer survey, 55% of citizens in Portugal found it very easy or fairly easy to complete their tax return in 2025, placing them 11th among EU Member States ([64]). This is perhaps unsurprising given that prefilling facilities are available for each tax type.

5.2.2 E-filing

Taxpayers in Portugal spend less time and effort complying with their tax obligations thanks to e-filing of tax returns. Since at least 2018, all the CIT, PIT and VAT returns are submitted electronically, compared to EU averages of 97.1% for CIT, 87.1% for PIT and 99.2% for VAT in 2023 ([65]). If needed, taxpayers can go to public offices that provide help. The fact that 100% of tax returns are filed online means that the tax administration can better allocate resources to more labour-intensive functions.

5.2.3 Provision of other online Services

The following online services were provided by Portugal in 2022 ([66]): Tax calculators, asking for tax payment arrangements and secure communication with taxpayers. The channels used are messaging and audio calls. The Administration also provides the following services: filling tax related objections, uploading data files onto the tax administration’s system, taxpayer portal that provides a ‘whole-of-taxpayer' view across the major taxes, ability to view taxpayer information captured from third parties and mobile applications. According to a recent Eurobarometer survey, only 25% of citizens in Portugal believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 26th among EU Member States ([67]).

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[63] Source: OECD Inventory of Tax Technology Initiatives 2024 (OECD Data Explorer • Inventory of Tax Technology Initiatives).

[64] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

[65] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

[66] ISORA

[67] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

Portugal was implementing between 2020 and 2022 the use of artificial intelligence in the tax administration. In 2020, the Tax Authority (AT) made available on the Finance Portal a virtual assistant, essentially informative, aimed at individual taxpayers, which supports citizens in fulfilling their tax obligations. Regarding digital services, the e-counter is in the final stages of introducing AI to generate responses to requests and questions submitted by taxpayers. In comparison with other Western European countries, the Portuguese Tax and Customs Authorities were a late adopter of AI.

5.4. Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Portugal does not have a formal compliance risk management strategy. The *Inspeção Geral de Finanças* within the Ministry of Finances carries out audits on certain areas and issues recommendations to improve effectiveness in the fight against tax avoidance and fraud ([68]).

5.4.2 Audit Types

Portugal conducts specific audits and comprehensive (general) audits. Comprehensive audits cover all taxes applicable to a taxpayer during defined periods, while specific audits focus on a single tax or a particular issue (e.g. transfer pricing, real estate transactions, R&D incentives). Desk audits are conducted at the Tax Administration's offices and are based on cross-checks and document analysis electronically submitted by the taxpayers. The Tax and Customs Authority (AT), acting through its Tax and Customs Audit Services, has the status of a criminal police body for matters relating to tax and customs crimes. In this capacity, it conducts criminal investigations, which may include surveillance activities, covert evidence gathering, and coordinated actions with other competent authorities

Procedural aspects: Audits may be initiated within the statute of limitations, typically four years from the fiscal year. In cases involving undisclosed offshore accounts or low-tax jurisdictions, this period may be extended to 12 years. Standard duration of an audit is six months, extendable twice for three months each in complex cases or mutual assistance scenarios. The tax administration issues a preliminary report to which taxpayers can respond in writing within 15 days (extendable to 25 days). In specific situations involving the application of the General Anti-Abuse Rule, the deadline can be extended to 30 days. This is followed by a final report, which may lead to tax assessments and penalties. Taxpayers have the right to appeal in case of disagreement ([69]).

[68] *Relatório sobre o Combate à fraude e Evasão Fiscais e Aduaneiras 2023.*
[69] Practiceguides.chambers.com

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

Portugal has one of the lowest shares of full-time equivalents (FTEs) in the tax administration assigned to audit, investigation and other verification functions. According to ISORA database ([70]), in 2023 19.1% of Portugal's FTEs dedicated to audit, investigation and other verification functions, one of the lowest percentages in the EU (EU average 32.2%). The share has remained relatively stable since 2018 (19.0% of FTEs).

Audit activity has decreased considerably in Portugal since 2018 partially caused by a change in strategic focus of the tax administration. According to Portugal's reports on fight against tax and customs fraud and evasion ([71]), the number of tax audits have fallen from 127 860 in 2018 to 53 407 in 2022 and 37 427 in 2024, i.e. a 71% decrease between 2018 and 2024. While the comparison between 2018 and 2022 may be distorted by the removal of preventive actions from the statistics after 2018, the 39% decrease between 2022 and 2024 is not affected by any methodological issue. This decline was caused by a series of drivers, some of which concern strategic decisions, some of which constraints and challenges: (I) a strategic shift towards fewer but more complex, high-yield cases (e.g., abusive tax planning, international cooperation, bank-secrecy lifts); (ii) more focus on prevention and automation, resulting in fewer single audits; (ii) workforce constrains in a context of fast ageing and (iv) longer procedures resulting from Law 7/2021, which added further steps and suspensions in the inspection procedure.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

Revenues raised from audits and other verification activities have followed a downward trend since 2018. The share of additional revenue from audits over total tax net revenue decreased from 3.5% in 2018 to 1.8% in 2023. Despite the reduction in the number of audits and the dedicated staff discussed above, the new focus on more complex but high-yield cases seems to have partly cushioned the revenue decrease.

5.5. Tax Complexity

Portugal ranks 10th out of the 27 Member States in the Tax Complexity Index ('TCI') ([72]), where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Portugal 7th among the Member States with regards to Tax Framework Complexity, and 16th with regards to Tax Code Complexity. This may indicate that whereas the tax processes carried out by the tax authorities are rather efficient (notably in the area of guidance,

[70] Own elaboration based on ISORA Database

[71] See "Relatório sobre o combate á fraude e evasao fiscais e aduaneiras 2024", "Relatório sobre o combate á fraude e evasao fiscais e aduaneiras 2022", "Relatório sobre o combate á fraude e evasao fiscais e aduaneiras 2020" and "Relatório sobre o combate á fraude e evasao fiscais e aduaneiras 2018".

[72] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.

according to the authors), there is room to improve the structure of the tax regulations (particularly in the area of group treatment, according to the authors).