



NEWS, LATEST, CURRENT TOPICS

# TAXATION OF VEHICLES MADE AVAILABLE BY THE EMPLOYER TO EMPLOYEES

**“(...) when it comes to the use of a car by the employer for professional and personal purposes, the employee benefits from a financial advantage (...)”**

In Portugal, it is common for employers to give their employees a car in the execution of an employment relationship. When this is the case, it can take two different forms. Either the car:

1. Is intended solely for the performance by the employee of his/her professional duties at the service of the employer; or
2. Can be used by the employee for the performance of their work and, at the same time, to be allowed to use it for personal purposes.

In the situation indicated in point a), the car provided by the employer is considered a work tool, assigned to an employee for exclusively professional purposes. Therefore, since there is no financial benefit for the employee, this use of the car is not subject to personal income tax, nor is it subject to social security contributions.

On the other hand, when it comes to the use of a car by the employer for professional and personal purposes, the employee benefits from a financial advantage, since he will not have to bear the costs associated with the purchase, maintenance and use of his own car.

Therefore, in these situations, the employee's use of the car for professional and personal purposes is subject to personal income tax and social security contributions.

The question then arises as to how to determine the value of the employee's financial benefit from the employer's provision of the car.

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When it comes to personal income tax (IRS), attention should be paid to the provisions of Ordinance n.º 383/2003 of 14 May. According to this ordinance, the employee's annual income resulting from the use of the vehicle is considered to be the product of 0.75% of its market value, reported on 1 January of the year in question, by the number of months it is used.

Applying this method of calculation to a car which, on 1 January 2024, had a market value of €30,000.00 (thirty thousand euros) and will be used by the employee for 12 months in that calendar year, the monthly income that should be considered for personal income tax purposes is €225.00 (two hundred and twenty-five euros).

In addition, Ministerial Order 383/2003 establishes annual depreciation criteria, which accumulate with each year of the vehicle's age. In these terms, and using the example above, if the vehicle had been purchased on 1 January 2024 instead of 1 January 2019, the monthly income that should be considered for personal income tax purposes would only be €146.25 (one hundred and forty-six euros and twenty-five cents).

On the other hand, and with regard to determining the amount of Social Security contributions for the value of the employee's financial benefit resulting from the employer's provision of the car, it is necessary to analyze the Code of Contributory Regimes of the Social Security System.

This law determines that the amount subject to tax is 0.75 per cent of the vehicle's purchase cost. However, unlike the IRS, there is no annual depreciation in the value of the vehicle. Thus, the amount subject to Social Security contributions does not decrease as the car gets older, but remains stable throughout the period of use of the car by the employee.

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In view of the above, there is a duality of criteria in determining the value of the employee's annual income resulting from the use of the car for professional and personal purposes, depending on whether they are considering their tax (IRS) or social security (Segurança Social) obligations.

