

Digital Dematerialisation in the Portuguese tax System

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Abstract: The importance of the digital dimension of the world has been transforming society, in many domains, increasingly so. The tax system felt the need to follow this tendency, and over the last decades, Portuguese companies were obliged to adapt to this new reality as their routines underwent several changes thereof. The Portuguese case study is of particular relevance since it is widely acknowledged it has pioneered cutting edge dematerialization, and in this regard, it has also been taken as a model by other countries which are now replicating some long-taken Portuguese initiatives towards such dematerialization. That process represents an important step in the relationship between taxpayers and the Tax Authority because it increases the tax information's security. This paper provides a critical review of the main dimensions of digital dematerialization in the Portuguese jurisdiction. Starting from the deductive method of literature review, which covers the doctrine, the legislation, and the jurisprudence, this paper includes practical exercises whereby we demonstrate the tightness of the tax calendar companies struggle with, somehow counterbalanced by the easiness at which declarations may be submitted. The control by Tax Administration has been increasingly tighter, to the extent that a particular terror climate has been laid down, in an attempt to act as an effective deterrent of companies' tax evasion.

Keywords: dematerialization, tax dematerialization, tax compliance, Portuguese tax system

1. A review on Portuguese dematerialized compliance under a legal framework

Nowadays it is impossible to ignore the importance of the digital dimension of the world because the electronic revolution changed society, completely. The tax system felt the need to embrace the tendency of a nearly paperless future, and over the last decades, Portuguese companies were obliged to adapt to this new reality as their routines underwent several changes thereof. The Portuguese case study is of particular relevance since it is widely acknowledged it has pioneered cutting edge dematerialization (Oliveira and Machado, 2018; Reis and de Lima, 2009), and in this regard, it has also been taken as a model by other countries which are now replicating some long-taken Portuguese initiatives towards such dematerialization. Several independent best practice awards have been received by the Portuguese tax administration (Reis and de Lima, 2009). In fact, in the field of taxation in Portugal, there is total dematerialization of procedures and files based on a single portal- the "Finance Portal" (*Portal das Finanças*). Dimensions of dematerialization worth highlighting include: i) electronically issued documents, such as invoices, with legal value assigned; ii) online access to the integrated tax situation of individuals and corporate entities; iii) online availability of all types of official forms; iv) the possibility of taxpayers and accounting professionals to contact the Portuguese Tax Administration by e-mail, using the application form of the service (*e-balcão*) to raise questions and see their doubts clarified in writing; and, most importantly, v) an exhaustive online filing system, which allows self-assessment, filing and payment of taxes with simple internet access (Oliveira and Machado, 2018; Reis and de Lima, 2009). Dematerialised compliance covers, amongst many others, VAT returns, corporate and personal income tax statements, withholding tax statements, inventories' annual communication for Tax Administration, issuance of invoices and their monthly communication for Tax Administration, goods transportation documents, social security compliance, and year-end accountability through the so-called 'Simplified Corporate Information return (IES - *Informação Empresarial Simplificada*) towards Tax Administration, Bank of Portugal, Statistics Portugal, Institute of Registries and Notaries. This important step of tax compliance dematerialization implies to taxpayers of the Portuguese jurisdiction more security in tax information. The similar process that was previously in force required the submission of tax statements manually and the data's introduction of the declarations presented manually, in the system of the tax authority, was also done manually. This process represented significant data entry errors because it required the intervention of human resources in the processing of tax data.

Accounting professionals may secure diversified portfolios of clients that include both individuals and corporate entities, thereby accruing all sorts of dematerialized compliance obligations, of various frequencies, ranging from monthly to annually. Table 1 provides a reasonably comprehensive review on monthly, fully dematerialized, compliance, while Table 2 compiles annual such compliance. For parsimony, quarterly dematerialized compliance as well as dematerialized compliance of other regularity is left uncovered (e.g., communication of transport documents, statement of admission of new employees, statement of tax planning schemes proposed/accompanied by promoters, tax Planning communication by users). As data from Table 1 and Table 2 were considered to provide sufficient grounds for the scope of this paper: while Portugal has pioneered cutting edge's tax compliance dematerialization, a significant problem of the Portuguese tax system resides in its voluminous tax compliance activities, where day-to-day compliance costs are high (OECD Economic Surveys: Portugal, 2010).

Table 1: Monthly dematerialized compliance impending over accounting professionals

Monthly deadline	Dematerialized routine	Applicable legislation and administrative instructions
10 th	Statement of income paid and tax withheld (employment income), for Tax Administration, regarding previous month (DMR- <i>Declaração Mensal de Remunerações</i>) – filing	Art. 119, paragraph 1c) of the Personal Income Tax Code (CIRS- <i>Código do Imposto Sobre o Rendimento das Pessoas Singulares</i>)
		Ordinance No. 6/2013, of January 10
	Statement of income paid and social security contributions, for Social Security, regarding previous month - filing	Art. 40, paragraph 2 of the Social Security Contribution Regimes Law (Law No.110/2009 as further amended)
	VAT return and annexes for the taxpayers covered by the monthly VAT regime (filing and payment)	Art. 27; Art. 29, paragraph 1; and Art. 41, paragraph 1a) of the VAT Code (CIVA- <i>Código do Imposto sobre o Valor Acrescentado</i>)
20 th	Statement of corporate and personal income tax withheld and stamp duty, regarding previous month (filing and payment)	Ordinance No. 375/2003, of May 10
		Art. 98, paragraph 3 of the Personal Income Tax Code (CIRS)
		Art. 94, paragraph 6 of the Corporate Income Tax Code (CIRC- <i>Código do Imposto sobre o Rendimento das Pessoas Coletivas</i>)
	Recapitulative statement (intracommunity supplies of goods and services)	Ordinance No. 523/2003, of July 4
		Art. 23 and art. 30 of the VAT Regime in Intracommunity Transactions (RITI - <i>Regime do Iva nas Transações Intracomunitárias</i>)
	Reporting of invoices issued, regarding previous month	Art. 29, paragraph 1l) of the VAT Code (CIVA)
	Statement of social security contributions (filing and payment)	Art. 3 of the Decree-Law No. 198/2012, of August 24 (as further amended)
	Employment Compensation Fund (FCT- <i>Fundo de Compensação do Trabalho</i>) and Employment Compensation Guarantee Fund (FGCT- <i>Fundo de Garantia de Compensação do Trabalho</i>) (filing and payment)	Ordinance No. 426-A/2012, of December 28
30 th / 31 st (1)	Annual vehicle tax (IUC- <i>Imposto Único de Circulação</i>) (filing and payment)	Art. 43 of the Social Security Contribution Regimes Law (Law No.110/2009 as further amended)
Last day of each month	Statement of income paid or placed at the disposal of non-resident entities - Form 30	Law No. 70/2013, of August 30
		Art. 4, art. 16, and art. 17 of the Single Transit Tax Code (CIUC- <i>Código do Imposto Único de Circulação</i>)
		Art. 119, paragraph 7 of the Personal Income Tax Code (CIRS)

While dematerialization made filing and payment secure, the preparation of tax returns often remains burdensome, accounting for the bulk of total compliance time. Furthermore, and despite progress operated, there is still scope for increased coordination between tax administration and social security. For example, Table

(1) Last day of the month in which the license plate was issued.

1 shows that corporate entities still have to file separate monthly returns for social security contributions and personal income tax withheld from employees' pay.

Table 2: Annually dematerialized compliance impending over accounting professionals

Annually deadline		Dematerialized routine	Applicable legislation and administrative instructions	
Month	Day			
January	31 st	Statement of income paid, tax withheld, tax deductions, social security and health contributions, and subscriptions (except employment income), regarding previous year – Form10	Art. 1, paragraph 1c)ii) of the Personal Income Tax Code (CIRS) Ordinance No. 383/2015, of October 26 Circular letter No. 20181/2016, of January 4	
		Inventory communication, regarding December 31 of the previous year	Ordinance No. 2/2015, of January 6	
		February	28 th	Option to adopt the simplified tax system by small business entities
Statement of income paid and tax withheld as final withholding, regarding previous year –Form39	Ordinance No. 371/2015, of October 20			
March	31 st	First special payment on account (PEC- <i>Pagamento Especial porConta</i>): self-assessment, filing, and payment	Art. 106 of the Corporate Income Tax Code (CIRC)	
April	15 th	Single Report concerning the social activity of the company, to be sent to the Office of Strategy and Studies of the Ministry of Economy (RU- <i>RelatórioÚnico</i>)	Ordinance No. 55/2010, of January 21 (as further amended)	
May	31 st	Corporate income tax, municipal surtax and state surtax (self-assessment, filing, and payment) – Form 22	Art. 120, paragraph 1 and art. 104, paragraph 1b) of the Corporate Income Tax Code (CIRC)	
June	30 th	Reporting of creation or contributions to stock option/ subscription/ award/ other schemes on behalf of employees and/or board members, regarding previous year- Form 19	Art. 119, paragraph 7 of the Personal Income Tax Code (CIRS)	
July	15 th	Filing of ‘Simplified Corporate Information’ return (IES- <i>InformaçãoEmpresarialSimplificada</i>), regarding the previous year	Law No. 8/2007, of January 12	
			Ordinance No. 64-A/2011, of February 3	
			Art. 113 of the Personal Income Tax Code (CIRS)	
			Art. 117 and 121 of the Corporate Income Tax Code (CIRC)	
			Art. 29, paragraph 1d)e)f)h) of the VAT Code (CIVA)	
			Art. 52 of the Stamp Duty Code (CIS- <i>Código do Imposto do Selo</i>)	
			Decree-Law No. 292/2009, of October 13	
			First payment on account (self-assessment, filing, and payment) concerning the ongoing year	Art. 104 of the Corporate Income Tax Code (CIRC)
				Ordinance No. 514/2003, of July 2
		31 st	First additional payment on account (self-assessment, filing, and payment) concerning the ongoing year	Art. 105 - A of the Corporate Income Tax Code (CIRC)
			Statement of issuance or circulation of securities, regarding previous year- Form 34	Art. 120 of the Personal Income Tax Code (CIRS)
			Statement of exempt income, income subject to reduced tax rates or regarding which no withholding tax is required, regarding previous year – Form 31	Art. 119, paragraph 2 of the Personal Income Tax Code (CIRS)
September	30 th		Second payment on account (self-assessment, filing, and payment) concerning the ongoing year	Art. 104 of the Corporate Income Tax Code (CIRC)
		Ordinance No. 514/2003, of July 2		

Annually deadline		Dematerialized routine	Applicable legislation and administrative instructions
Month	Day		
		Second additional payment on account (self-assessment, filing, and payment) concerning the ongoing year	Art. 105 - A of the Corporate Income Tax Code (CIRC)
October	31 st	Second special payment on account (PEC- <i>Pagamento Especial por Conta</i>): self-assessment, filing, and payment	Art. 106 of the Corporate Income Tax Code (CIRC)
December	15 th	Third payment on account (self-assessment, filing, and payment) concerning the ongoing year	Art. 104 of the Corporate Income Tax Code (CIRC)
		Third additional payment on account (self-assessment, filing, and payment) concerning the ongoing year	Ordinance No. 514/2003, of July 2 Art. 105 - A of the Corporate Income Tax Code (CIRC)

2. Real-life examples

Portuguese accounting legislation allows for simplified accounts in the case of small/medium-sized or micro-enterprises, more evidently after the Decree-Law 98/2015 of June 2 became effective from 1 January 2016 (to comply with Directive 2013/34/EU of the European Parliament and of the Council, of June 26). Based upon two case studies, we show such accounting relief on the smaller is somewhat impaired with their tax compliance (dematerialized) workload.

2.1 The case of a micro-entity

Table 3 compiles monthly, quarterly, and annual dematerialized compliance obligations of one given micro-entity: a private label clothing manufacturer, employing as few as four full-time workers, and whose figure for annual sales turnover is around 60.000€. This business has been generating profit, so three payments on account are due; nonetheless, the additional payment on the account does not apply due to the small size.

Table 3: Dematerialised tax compliance impending over one real-world micro-entity

Compliance obligation	Deadline											
	Jan	Feb	March	April	May	June	July	Au.	Sep	Oct	Nov	Dec
Statement of income paid and tax withheld (employment income), for Tax Administration, regarding previous month—filing	10	10	10	10	10	10	10	10	10	10	10	10
Statement of income paid and social security contributions, for Social Security, regarding previous month - filing	10	10	10	10	10	10	10	10	10	10	10	10
Statement of corporate and personal income tax withheld and stamp duty, regarding previous month (filing and payment)	20	20	20	20	20	20	20	20	20	20	20	20
Statement of corporate and personal income	20	20	20	20	20	20	20	20	20	20	20	20

Compliance obligation	Deadline											
	Jan	Feb	March	April	May	June	July	Au.	Sep	Oct	Nov	Dec
tax withheld and stamp duty, regarding previous month (filing and payment)												
Reporting of invoices issued, regarding previous month	20	20	20	20	20	20	20	20	20	20	20	20
Statement of social security contributions (filing and payment)	20	20	20	20	20	20	20	20	20	20	20	20
Employment Compensation Fund and Employment Compensation Guarantee Fund (filing and payment)	20	20	20	20	20	20	20	20	20	20	20	20
VAT return and annexes - quarterly VAT regime (filing and payment)		15			15			15			15	
Statement of income paid, tax withheld, tax deductions, social security and health contributions, and subscriptions (except employment income)– Form10	31											
Inventory communication, regarding December 31 of the previous year	31											
First special payment on account: self-assessment, filing, and payment			31									
Single Report concerning the social activity of the company				15								
Corporate income tax, municipal surtax and state surtax (self-assessment, filing, and					31							

Compliance obligation	Deadline											
	Jan	Feb	March	April	May	June	July	Au.	Sep	Oct	Nov	Dec
payment) – Form 22												
Filing of ‘Simplified Corporate Information’ return							15					
First payment on account (self-assessment, filing, and payment)							31					
Second payment on account (self-assessment, filing, and payment)									30			
Second special payment on account: self-assessment, filing, and payment										31		
Third payment on account (self-assessment, filing, and payment)												15

2.2 The case of a small entity

Table 4 exhibits further compliance obligations of a small entity, as compared to those of the micro-entity presented in Table 3. This small entity is a supermarket with a total annual turnover of around 8.500.000 euros and 43 employees.

Table 4: Further dematerialized tax compliance impending over one small real-world entity as compared to a micro-entity

Compliance obligation	Deadline											
	Jan	Feb	March	April	May	June	July	Au.	Sep	Oct	Nov	Dec
Communication of transport documents	Daily											
Recapitulative statement (intracommunity supplies of goods and services)	20	20	20	20	20	20	20	20	20	20	20	20
VAT return and annexes - monthly VAT regime (filing and payment)	10	10	10	10	10	10	10	10	10	10	10	10

The bottom line of this section is clear: the resource-constrained micro-entities are disproportionately overwhelmed with (dematerialized) tax compliance. Our second real-life example refers to a company which is much larger than the former; yet, not much further compliance is required from it.

3. Discussion

Tax dematerialization has brought several benefits, both to Portuguese Tax Administration and Portuguese citizens. Firstly, the inherent centralization of information on individuals and corporate entities facilitates

detection of tax evasion and thereby not only increases tax revenue but also incites a generalized feeling of greater tax justice. Faulty taxpayers are easily, or even automatically, spotted and notified to pay their tax liabilities and bear due penalties. Benefits extend to concerned professionals and taxpayers as they may conveniently accomplish their tax obligations and see their doubts clarified in writing from their offices/homes, which results in substantial savings of time and money (Oliveira and Machado, 2018; Reis and de Lima, 2009). Consistently, Oliveira and Machado (2018) acknowledge tax dematerialization in Portugal has promoted more excellent proximity between taxpayers and concerned professionals, on the one hand, and Tax Administration, on the other hand, as time constraints and bureaucratic requirements are, to a great extent, overcome, resulting in improved effectiveness and efficiency. It is also worth highlighting that dematerialization has allowed tax compliance to be simplified in many instances as one same statement may respond to the information requirements of different stakeholders. For example, the annual return and correspondent annexes (IES) provides information to Tax Administration, the Bank of Portugal, Statistics Portugal, and the Institute of Registries and Notaries.

Nonetheless, could it be that the advantages reaped from the speed of the dematerialized Portuguese tax system are counterweighed by the disadvantages thereof? For example, it is widely acknowledged that a substantial compliance burden, worsened by a fast pace changing tax landscape which makes it challenging to keep ahead and be fully compliant, acts as a significant deterrent of foreign direct investment (e.g., Leonidou, 2017; OECD Economic Surveys: Portugal, 2010).

In 2010, unlisted Portuguese companies in the non-finance sector compulsorily adopted a new Accounting Standards System (*Sistema de Normalização Contabilística* - SNC), a principles-based accounting standards system, to align Portuguese accounting standards with the International Accounting Standards Board (IASB) model, which is Anglo-Saxon based. Before the adoption of this IFRS-based accounting system, Portugal's accounting regime was based on the Continental European model of rules-based regulation, primarily geared towards government and tax needs, rather than to meet investors' needs (Ferreira, Lara, & Gonçalves, 2007; Guerreiro, Rodrigues & Craig, 2012). While Portugal's international accounting convergence called for a substantial detachment from its previous accounting regime, arguably, the high level of Portuguese tax digitalization has facilitated an exponential growth of tax compliance obligations, resulting in accounting professionals overlooking the clearer disengagement between accounting and taxation that characterizes the IFRS model. It can be inferred from Table 1, taken together with Table 2 (section 1), that accounting professionals must devote a substantial deal of their time to filing dematerialized statements on a nearly daily basis. Therefore, despite obvious benefits arising from tax digitalization, it has also highlighted context costs with companies, most notably micro-entities, being overwhelmed with tax compliance obligations. It raises the risk of penalties many resource-constrained SMEs cannot afford to bear, overdraws attention towards compliance, as much as lowers commitment to International Financial Reporting Standards' (IFRS) *de facto* implementation, arguably contributing to perpetuate the long-standing practice of tax-oriented accounting. Despite filing being much quicker than bureaucratic paper procedures requiring face-to-face interaction, this benefit may be to a certain extent written off by an enormous tax compliance workload in Portugal. Consistently, Dâmaso and Martins (2015), based on a large sample of Portuguese chartered accountants, found the majority of them did not recommend the simplified tax regime, and the main motive for those who recommended it *was not* a decrease of compliance costs. Also, increased tax enforcement, which has been taking place in Portugal, increases the tax burden for companies, for example by demanding more time gearing up for questions from Tax authorities (Leonidou, 2017). Arguably, it may also act as a deterrent of compliance, encouraging the shadow economy as a means to achieve tax savings, to escape non-compliance penalties, and to avoid the context costs from timely compliance. One of the motivations for deliberately concealing market activities from public authorities is, according to Schneider (2007), the avoidance to fulfill certain administrative procedures, such as completion of statistical questionnaires and any forms. Barbosa, Pereira, and Brandão (2013) concluded that despite the share of the shadow economy in Portugal decreased sharply between 1997 and 2000 (from about an estimate of 52% to 13.4% of the GDP), since 2001 it has been rising again, most evidently after 2007, having reached a peak of 24.2% of the GDP in 2011. It was precisely in 2006 that the Portuguese government developed a programme for administrative simplification and modernization, called the "SIMPLEX" Programme, which entailed dematerialization of procedures and files. Lastly, under the pretext of tax simplification and aid in tax compliance, the Portuguese Tax Administration ends up upholding taxpayers' confidential information.

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