

Navigating VAT Deduction on Vehicles in Portugal

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By **Catarina Sardinha**, 29th January 2026

In Portugal, the rules for a company to deduct Value-Added Tax (VAT) on vehicle acquisitions are quite specific, mainly depending on the type of vehicle and its use. Understanding these regulations is crucial for businesses aiming to optimise their tax position.

The General Rule: No VAT Deduction for Passenger Cars

As a fundamental principle, the Portuguese VAT Code generally prohibits the deduction of VAT on the purchase, leasing, or use of passenger cars. This includes associated costs like maintenance, repairs, and fuel. This is the most important rule for businesses to remember.

Exceptions: When VAT Deduction is Possible

Fortunately, there are specific exceptions to this rule, primarily tied to the vehicle's function within a company's core business operations or to government incentives for greener transport.

Vehicles for Specific Business Activities

Full VAT deduction is permitted for vehicles that are the primary object of a company's business activity. This applies to:

- Taxis and vehicles for public transport.
- Vehicles used by car rental companies (for example, rent-a-car).
- Vehicles that are part of a car dealer's stock-in-trade.
- Vehicles used in other activities where income is directly generated from their operation, such as in driving schools or by tour operators.

Electric and Plug-in Hybrid Vehicles

Portugal provides significant tax incentives for electric and plug-in hybrid vehicles to encourage the adoption of greener transportation.

- **Electric Vehicles (EVs):** A 100% VAT deduction is possible on the acquisition of EVs, provided the cost (excluding VAT) does not exceed €62,500.
- **Plug-in Hybrid Vehicles (PHEVs):** A 100% VAT deduction is also possible, but the acquisition cost (excluding VAT) must not exceed €50,000.

For both EVs and PHEVs, the VAT on electricity for charging is fully deductible.

Other Important Considerations

Depreciation

Even if VAT is not deductible, the cost of the vehicle can generally be depreciated as a business expense, which helps to reduce corporate tax (IRC) liability. However, there are limits on the value that can be depreciated.

- For a traditional passenger car, the maximum tax-deductible depreciation is capped at an acquisition cost of approximately €25,000.
- This cap is higher for EVs (€62,500) and PHEVs (€50,000), aligning with the VAT deduction rules.

Autonomous Taxation (*Tributação Autónoma*)

Companies in Portugal that provide cars for the private use of their employees may be subject to “Autonomous Taxation” (*Tributação Autónoma*), an additional tax on certain company expenses. The tax rate depends on the vehicle’s cost and environmental characteristics. The autonomous taxation on expenses with vehicles can be summarised as follows:

Cost of acquisition/type of vehicle	Plug-in-Hybrids*	VNG	Other
Acquisition cost lower than €37,500	2.5%	2.5%	8%
Acquisition cost between €37,500 and €45,000	7.5%	7.5%	25%
Acquisition cost equal or higher than €45,000	15%	15%	32%

*Which battery can be charged using a connection to the power grid, having a minimum electric autonomy of 50k, e official emissions of less than 50gCO₂/km.

- EVs are exempt from autonomous taxation if their cost is less than €62,500.
- PHEVs and other fuel types are subject to specific rates.

Invoice Requirements

To claim any applicable VAT deductions, the purchase invoice must be in the company's name, include its VAT number, and comply with all legal requirements.

Contact Us

For more information, please contact Dixcart Portugal: advice.portugal@dixcart.com.

Note that this is not tax advice and is for discussion purposes only.