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Employment Law Guide for Companies Hiring in Portugal

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Executive summary

Portugal's labour law is governed by the Portuguese Labour Code (Código do Trabalho), which outlines the rights and obligations of both employers and employees. This law is supplemented by the Portuguese Constitution, which establishes core labour rights, including protection from unfair dismissal, fair wages, and the right to unionize.

In addition to national legislation, Collective Bargaining Agreements (CBAs), also known as Collective Regulation Instruments (IRCTs), play a significant role. These agreements, negotiated between employers and trade unions, may provide terms that exceed the statutory minimum, offering benefits like higher wages or additional leave entitlements.

The Authority for Working Conditions (ACT) is responsible for enforcing compliance with labour laws. Employers must comply with the legal requirements to avoid penalties.

Companies operating or intending to operate in Portugal must thoroughly understand the Labour Code to ensure compliance with local legal requirements. They should also identify any relevant Collective Bargaining Agreements (CBAs) that apply to their industry, as these agreements may impact their obligations and employees' rights. Employees who believe their labour rights have been violated can report such issues to the Authority for Labour Conditions (ACT), which is empowered to investigate and impose penalties on employers found to be in non-compliance. This highlights the critical need for international companies to prioritize strict adherence to labour laws in their employment practices in Portugal.



Hiring Employees in Portugal

Hiring EU/EEA/Swiss Citizens

Employees from the European Union (EU), European Economic Area (EEA), or Switzerland can live and work in Portugal without requiring a residence permit or visa. However, if they intend to stay for more than three months, they must obtain a Residence Certificate from the local city hall.

Hiring non-EU Citizens

Hiring non-EU citizens is a more complex process. These employees typically require a work visa and a work permit. A job offer from a Portuguese employer is generally required to apply for a work visa. The process involves sponsorship by the employer, and various visa options exist depending on the nature of the job (e.g., job seeker, skilled workers, highly qualified professionals, digital nomads).

The Agency for Integration, Migration, and Asylum (AIMA) handles immigration procedures, replacing the Portuguese Immigration and Borders Service (SEF).

The prospective employee should apply for a Residence Visa for work (type D visa) at a Portuguese consulate in their home country. To support this, the employer needs to provide a job offer or employment contract.

The visa application is reviewed by the immigration authorities (now AIMA) and, if approved, the consulate issues a residence visa typically valid for 4 months, allowing the individual to travel to Portugal. After entry, the employee must obtain a Residence Permit card to legally reside and work longer-term.

In addition to a traditional job visa, Portugal offers specific visa categories that facilitate hiring foreign talent, including the Tech Visa, the Highly Qualified Visa, and the Digital Nomad Visa.



Employment Contracts

Employment contracts in Portugal can be either written or verbal. Certain types of contracts, such as those with non-EU workers, temporary contracts, remote work agreements, part-time contracts, fixed-term contracts, contracts with multiple employers, and management contracts, must be formalized in writing. Contracts should detail essential terms, including the nature of the work, salary, working hours, and termination conditions.

In some instances, the drafting of legal contracts by non-qualified agents may be considered unauthorized legal practice. To ensure full compliance with the Portuguese Labour Code and other applicable legislation, it is advisable that employment contracts are drafted with appropriate legal expertise, thereby safeguarding the company's adherence to labour regulations.

There are various types of contracts:

Open-ended contracts ("contrato sem termo"), the most common, are indefinite and permanent.

Fixed-term contracts ("contrato a termo certo") are for specific projects or to replace absent employees, with a maximum duration of two years and renewable up to two or three times. This type of contract is highly restricted.

Part-time contracts ("contrato a tempo parcial") must be in writing and involve a reduced work schedule.

Short-term contracts ("contrato de muito curta duração") are used for seasonal or temporary work, lasting no more than 35 days per term or 70 working days per year, and may not always require a written agreement.

Remote work agreements based on mutual agreement between the employer and employee, allowing for either certain days of telework or full remote work. Typical employment characteristics, including the employer's direction, still apply.

Probationary Periods

Probationary periods are standard in Portuguese employment law, with duration varying based on the contract type and employee role. During probation, both employer and employee can terminate the contract with minimal notice, although specific requirements apply once the probation period exceeds certain lengths.

Employers must inform the employee in writing about the probationary period's duration and conditions within 7 days, or the probationary period will be considered non-existent. It is best to include a probationary period clause in the employment contract.

For open-ended contracts, the probation period is typically 90 days, extendable to 180 days for roles requiring technical complexity and responsibility, and up to 240 days for senior positions. For fixed-term contracts, the probation period is 30 days for contracts lasting six months or more, and 15 days for contracts shorter than six months.

Managing the Employment Relationship in Portugal

Working Hours and Overtime

The standard full-time working week in Portugal is 40 hours, with a maximum of 8 hours per day. Overtime is limited to 2 hours per day and 150 to 175 hours annually, depending on company size. Overtime must be compensated at higher pay rates, 125% of the regular hourly wage for the first hour on weekdays, 137.5% for additional hours, and 150% for work on weekends and public holidays. If an employee exceeds 100 overtime hours annually, higher rates may apply.

Employees are entitled to a minimum 11-hour rest period between workdays and a rest break of 1 to 2 hours if working over five consecutive hours, typically taken as a lunch break. Employers must also grant at least one day off per week, generally on Sunday.

5



Paid Annual Leave and Sick Leave

Employees are entitled to 22 working days of paid annual leave (“paid vacation”) each year. In their first year, employees accrue two days of leave per month, typically up to a maximum of 20 days, with leave available after six months of service. Unused leave generally expires on January 1st but can be taken until April 30th. Cash in lieu of unused leave is usually not permitted, except in specific circumstances.

Sick leave (“baixa médica”) in cases of illness or injury is provided by the Portuguese social security system with the first three days potentially being unpaid. After this period, sick pay is granted based on a percentage of the employee’s salary, for up to 1,095 days.

Parental Leave and Other Types of Leave

Portuguese labour law offers comprehensive parental leave entitlements. Mothers are entitled to up to 30 days of maternity leave before childbirth, with a mandatory 42 days of leave post-childbirth. Fathers are granted 28 days of paternity leave within the first 42 days, with 7 consecutive days taken immediately after birth. Parental leave can

be shared between both parents, lasting between 120 and 150 days, with possible extensions. During this period, employees typically receive full salary compensation through the Social Security system.

Additional leave entitlements include marriage leave, bereavement leave, family care leave, and unpaid leave, each subject to specific legal conditions.

Employee Compensation and Benefits

The national minimum wage for 2025 is €870 per month. Employees are also entitled to mandatory Christmas and holiday bonuses, each equivalent to one month's salary. Additional benefits like meal vouchers and transport allowances may be offered by employers.

Data Privacy

Data protection is a crucial element of Portuguese employment law, with personal data processing governed by the General Data Protection Regulation (GDPR). Employees' personal data is given strong protection under this framework, ensuring that any data related to an employee's performance is used only under specific, justified circumstances (e.g. payroll). It cannot be utilized in ways that may negatively impact the employee's rights or interests.

Non-Compete Clauses

Under Portuguese law, non-compete clauses are enforceable in employment contracts, particularly for employees in higher-level positions with access to sensitive company and industry information. These clauses can extend up to three years after the termination of employment, and employees must be financially compensated for the restriction imposed on their post-employment activities.

Employment Termination in Portugal

Under Portuguese law, the termination of employment is generally only permissible with just cause, with exceptions made during the probationary period or in cases of mutual agreement between the employer and the employee.

Employee Resignation

Employees have the right to voluntarily resign from their position, provided they issue a written notice to the employer. The required notice period depends on the employee's length of service and the type of employment contract in place. After the probationary period, the resignation notice period typically ranges from 15 to 60 days, depending on the employee's tenure and type of employment contract.

Employer-Initiated Termination

Employers may terminate an employment contract for various reasons, each of which is subject to specific procedural requirements. The primary grounds for employer-initiated termination include:

Just Cause and Disciplinary Dismissals

Occur due to serious misconduct occurs when an employee's conduct or failure to fulfil legal or contractual obligations justifies termination. Common grounds for disciplinary dismissal include disobedience to employer instructions, violations of worker's rights, damage to company property or unjustified absenteeism.

The process for disciplinary dismissal requires the employer to follow a formal procedure, which includes the issuance of a written notice ("Nota de Culpa"), detailing the reasons for the dismissal. The employee is granted the opportunity to respond and present a defence. Notably, no notice period is required for dismissals based on disciplinary grounds.

Disciplinary proceedings must be conducted by an impartial individual or body well-versed in the complexities of such procedures and committed to upholding the rights of both the employee and employer, thereby guaranteeing a fair and equitable process. The right to a fair procedure is mandated by the Portuguese Constitution, and failure to uphold this right may render the disciplinary process unlawful.

7

Objective Dismissal and Redundancy

Objective dismissal refers to termination due to factors unrelated to the employee's conduct, such as economic reasons; structural changes or technological advancements (e.g., redundancy or position elimination)

In these cases, the employer must adhere to a consultation process and notify the affected employee in writing. The notice period for objective dismissals varies according to the employee's length of service, ranging from 15 to 75 days.



Collective Dismissal

Collective dismissal applies when an employer is required to terminate the contracts of multiple employees due to the objective reasons outlined for objective dismissal. In companies with fewer than 50 employees, at least two employees must be dismissed, and in companies with 50 or more employees, at least five employees must be dismissed. The collective dismissal process involves consultation with employee representatives and mandatory notification to the Ministry of Labor.

Termination by Mutual Agreement

Employment contracts may be terminated by mutual consent between the employer and the employee. Such agreements must be in writing. Employees have a seven-day window to revoke the agreement unless it has been notarized.

Severance

In the case of objective dismissal, the employee is generally entitled to severance pay. If a dismissal is found to be unlawful, the employee may be entitled to reinstatement, back wages, and compensation for damages.

Certain employees enjoy enhanced legal protections, including those who are pregnant, on maternity leave, or on parental leave. Dismissing these employees is subject to stricter legal conditions.

Use of EORs

Engaging the services of an Employer of Record (EOR) in Portugal enables foreign companies to hire local talent without creating a legal entity. Still, it carries significant legal, tax, and operational risks that must be carefully managed. While the EOR formally manages employment contracts, payroll, and compliance with Portuguese labour laws, the foreign company typically retains control over the employee's daily activities, deliverables, and compensation. This dual role can blur the lines of employment, raising concerns about the true nature of the employment relationship and potential misclassification.

One of the central legal risks is the possibility that Portuguese authorities or courts will requalify the employment relationship, treating the foreign company as the de facto employer. This could expose the company to retroactive liabilities, including unpaid employment taxes, social security contributions, severance pay, and compliance failures under Portuguese labour law.

A further complication is the risk of triggering a permanent establishment (PE) despite using an employment organization (EOR). An EOR structure does not automatically shield a company from PE risk if the employee's function reflects ongoing business activity.

In addition to labour and tax risks, intellectual property (IP) and ownership of inventions are often overlooked when using an EOR. Under Portuguese labour law, inventions created by an employee generally belong to the legal employer—meaning the EOR, not the foreign company itself. This creates uncertainty over the ownership of IP developed during employment, particularly for companies engaged in software development, product design, research, or technology development. Without clear and enforceable IP assignment clauses, the foreign company may not have full legal rights to the work product or inventions generated by the employee.

This issue becomes more complex if the IP is patentable, commercially valuable, or forms a core part of the company's competitive strategy. Portuguese courts may consider the factual circumstances—such as who supervised and funded the work—but unless IP rights are explicitly assigned, they may default to the EOR. To mitigate this, companies should execute standalone IP assignment agreements directly with the employee, in addition to any provisions in the EOR's master service agreement. These contracts should comply with Portuguese law and include confidentiality, invention disclosure, and post-termination clauses.

In conclusion, while EORs offer flexibility and a streamlined hiring process, they do not eliminate the legal and commercial risks associated with employment in Portugal. Companies must carefully manage the boundaries of control, protect their tax position by assessing permanent establishment exposure, and secure legal ownership of intellectual property developed by local employees.

A properly structured EOR arrangement—combined with direct IP contracts, clear job roles, and legal oversight—can help mitigate these risks; however, it should be viewed as a temporary or transitional solution rather than a long-term substitute for a local establishment.

Tax and Social Security considerations

Taxation of Employees

Tax Residency: For tax purposes in Portugal, individuals are considered tax residents if they spend more than 183 days in the country in a 12-month period or have a habitual residence in Portugal. Tax residents are subject to Portuguese income tax on their worldwide income, while non-residents are taxed only on Portuguese-sourced income. This means that international employees moving to Portugal should be aware of their residency status and how their income will be taxed.

Progressive Tax Rates: Portugal follows a progressive income tax system for residents, with rates increasing with higher income levels. The rates for 2025 range from 14.5% to 48%, depending on the individual's income (additional surtaxes may apply). The specific tax bracket will depend on the employee's salary.

Non-Resident Taxation: Non-resident employees, who are those not meeting the tax residency criteria, typically face a flat rate on their employment income earned in Portugal, which is set at 25%. This rate may differ depending on specific circumstances or the nature of the employment (e.g., temporary assignments, contract work).

9



Tax Incentives

Portugal has previously offered the Non-Habitual Resident (NHR) program, which provided significant tax benefits, such as a 20% flat income tax rate and exemptions on foreign-sourced income. While the NHR program is now closed to new applicants, a transitional period may apply until March 2025 for those who met specific criteria by 2023.

The Tax Incentive for Scientific Research and Innovation (IFICI) regime, or NHR 2.0, has replaced the NHR program. This regime targets qualified professionals and entrepreneurs in science, technology, education, and innovation, offering a 20% flat tax rate on income from eligible activities in Portugal and exemptions on most foreign-sourced income (excluding pensions) for up to 10 years.

Additionally, the Youth PIT (IRS Jovem) tax benefit offers partial tax exemptions for young individuals under 35 who earn income from employment or self-employment.

Social Security Contributions

In Portugal, both employers and employees are required to contribute to the social security system, with employers contributing 23.75% and employees contributing 11% of the employee's gross salary. Employers must also provide work accident insurance and may offer optional benefits such as meal vouchers, transportation allowances, and supplementary health insurance.

Employers are responsible for registering with the Social Security Institute, obtaining a Social Security Identification Number (NISS) for each employee, and notifying the Institute of new hires at least 24 hours before employment begins.

They must also calculate, withhold, and remit social security contributions, maintain employment records, and provide written contracts. Additionally, employers must ensure workplace safety and offer professional training when required.

The Portuguese government offers social security contribution relief for employers hiring young individuals or long-term unemployed workers through programs like Estágios INICIAR, +Emprego, and +Talentos. These programs provide financial support, including meal allowances, transport expenses, and reductions in employer contributions. International companies and startups should consider these programs to reduce hiring costs.

10

Cross-Border Workers and Non-EU Citizens: Social Security Considerations

For non-resident workers or those moving between EU countries for employment, social security coordination within the EU allows workers to retain their social security rights. Employees transferring from another EU country to Portugal should ensure they have a valid European Health Insurance Card (EHIC). They may also transfer their social security contributions to Portugal, in accordance with EU regulations.

Non-EU citizens employed in Portugal are generally subject to the same social security contributions as Portuguese residents. However, the application of bilateral social security agreements between Portugal and certain non-EU countries may affect contribution requirements. Employers should verify the existence of any such agreements and understand how they may influence the social security contributions of their non-EU employees.

Permanent establishment risks

Hiring an employee in Portugal without incorporating a local entity can expose a foreign company to the risk of a permanent establishment (PE).

Under Portuguese tax law, following OECD standards, a permanent establishment (PE) arises when a company has a fixed place of business or a dependent agent in Portugal who habitually concludes or negotiates contracts on its behalf. Even a single remote employee—especially if they play a key role in business development, sales, or management—can trigger a PE if their activities suggest the company is effectively operating in Portugal.

If a PE is deemed to exist, the foreign company becomes liable for Portuguese corporate income tax on the profits attributable to its activities in Portugal. It may also be subject to VAT obligations, payroll tax compliance, and reporting requirements. The presence of a home office, routine local operations, or a country manager with broad authority are red flags. Tax authorities evaluate substance over form, meaning that even informal arrangements can be scrutinized if they appear to constitute a permanent business presence.

To mitigate PE risk, companies should limit the employee's authority and avoid providing a fixed place of business. However, each situation must be assessed individually, and foreign companies are strongly advised to seek legal and tax counsel before hiring locally to ensure compliance and avoid unintended tax exposure.

Conclusion and Recommendations

Portugal's labour laws provide clear regulations for hiring and terminating employees, applying equally to both local and foreign workers. The Portuguese Labour Code and Constitution ensure that international companies adhere to the same standards as local employers. EU/EEA/Swiss citizens can move freely but must register for stays over three months. Non-EU citizens need a work visa, often requiring employer sponsorship, and companies should be aware of changes in immigration responsibilities.

Employment contracts can be verbal or written, but written contracts are mandatory for certain employees, especially non-EU workers. Employers must comply with rules on working hours, leave, compensation (including minimum wage, bonuses, and social security contributions), and workplace safety. Employment termination requires just cause outside probation, and unlawful dismissals may result in legal consequences.

Companies should also consider tax benefits, such as the IFICI regime, which replaces the NHR program for new applicants, and explore available government incentives for hiring.

International companies are advised to consult expert lawyers on Portuguese employment and tax laws to ensure their employment contracts are legally sound and, when necessary, in writing. It is essential to establish clear employment policies and procedures, stay updated on changes to labour laws, taxes, and social security, and explore tax incentives and hiring grants to reduce costs.

By following these steps, international companies and startups can navigate the Portuguese employment landscape more effectively, ensuring compliance with all applicable regulations, managing risk, and fostering positive relationships with employees in Portugal. This proactive approach will help them build a strong foundation for sustainable growth and success in the Portuguese market.

Our recommendations:

- Always use written contracts, especially for non-EU hires
- Check if CBAs apply to your industry
- Review immigration, tax, and social security rules regularly
- Consider legal advice for contracts, dismissals, and incentives
- Use available government hiring support programs to reduce costs

About GFDL Advogados

GFDL Advogados is an independent law firm based in Lisbon, offering a comprehensive suite of legal services tailored to the sophisticated needs of its clients. Our team comprises seasoned advisors and lawyers with extensive international experience in law and global business affairs.

We offer discerning clientele strategic counsel on a wide array of matters, ensuring a nuanced understanding of cross-border transactions and investments within the Portuguese legal landscape.

Our dedicated teams handle all aspects of doing business and investing in Portugal. We consolidate intellectually rigorous work with unique insights into business and cultural practices. A hands-on approach to projects accompanies our strong industry knowledge.

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