

Portugal

Tax System

Tax unit

Personal income is subject to the IRS (Imposto sobre o Rendimento de Pessoas Singulares) which is a tax on the revenue of households that is unique and progressive. Since 1989 the household's income is jointly taxed according to the rules of the splitting method.

Spouses incomes are aggregated and divided by 2.

Tax bands

After the above mentioned allowances are accounted for, the appropriate tax rate is found according to the following table . Tax liability is then computed by applying that tax rate to the average individual income and multiplying the result by 2.

Income Tax Rates:

Taxable Income	Tax Rate (%)	
	Normal	Average
0 - 1 050 000	15%	15%
1 050 000 - 2 435 000	25%	20,6826%
2 435 000 - 6 150 000	35%	29.3%
6 150 000 -	40%	

Taxable Income

Virtually all sources (nine) of personal income (with some few exceptions) enter the determination of the taxable income which is computed as the sum of the incomes from all those sources minus several legally granted allowances. As of 1997 these allowances include: the maximum between 65% of the earned income up to a maximum of 484 000 PTE or the individual's compulsory contribution to the social security system, health and

education expenses, donations to non-profit organisations, life, health and accidents insurance premiums, costs with the acquisition or renting of personal housing, alimony pensions, and union fees¹.

The final tax liability is found after accounting for some tax deductions legally stipulated, the most important of which is a lump-sum household credit that varies with the number of members of the taxpayer's family.

Social Security System

Structure and contributions

The Portuguese Social Security System is organised in two major regimes: the **General Regime** (Regime Geral de Segurança Social), covering all private sector workers, independent workers and individuals out of the labour force, and the **Public Sector Regime** (Caixa Geral de Aposentações), covering all public sector workers. Alongside, some private managed and capitalised systems can be found covering workers of certain firms (mostly, currently or formerly, public-owned firms), or sectors. The banking sector system is perhaps the most important of such systems. Benefits granted by these systems may or may not add to those granted by the general regime.

Three different contributory schemes are included under the General Regime:

- a) the **General Contributory Scheme** which is mandatory and covers (in different degrees) all workers outside the public sector and the self-employed;
- b) the **Voluntary Social Insurance Scheme** - adhesion to this scheme is voluntary but open to anyone not covered by the general contributory schemes; it was originally designed keeping in mind some special groups such as housewives and Portuguese emigrants;
- c) the **Non-Contributory Scheme**, that covers all persons not covered by the other two schemes and that may find themselves in a situation of economic and social hardship.

Among other things, these schemes differ in the levels of contributions due in each case and the nature and the amount of benefits they grant.

Law 140-D/86 (of June the 14th), subsequently updated, governs payments to the Social Security System (General Contributory System). Henceforth, social contributions were unified and both firms and workers became liable for a single payment which covers all their responsibilities towards the social security system which refer to health insurance, sick leaves, old age and disability insurance, and unemployment insurance. The amount of tax due is equal to 34,25% of all earnings, 11% of which are paid for by the employee, and 23,25% by the employer². Occupational hazard insurance is financed by an additional tax of 0,5%.

¹ Several restrictions apply either quantitatively or qualitatively namely concerning education expenses, insurance premiums and acquisition or renting of personal housing.

² The percentage of the earnings that must be paid by the employers was reduced from a previous 24% level to the current 23,25% level by Law 30-B/94 (of December the 27th).

Social security related payments are proportionally invariant with the number of hours worked and the specific form of the employment contract³. In particular, it is worth mentioning that the same rates apply both to overtime hours and part-time work. The total amount paid varies of course with the value of earnings that are the basis for making the calculation. For that reason, legal premiums applying both to overtime hours and unsocial hours make such payments higher, but not more than proportionally.

Assumptions for model calculations

The basis for the calculations is the 1996 monthly average income of each individual in the couple multiplied by 14 so as to include holiday and Christmas bonuses. This was taken from the Earnings Survey, published by the Statistics Bureau of the Ministry of Labour.

Because data currently available refers to total earnings (i.e., includes seniority bonuses, overtime pay and other periodic payments) we had to admit that in 1996 the share of wages in earnings was left unchanged. Average annual wages for men and women working full-time was thus obtained⁴ - it is of 1784*103PTE for men and 1260*103PTE for women.

Different scenarios for part-timers' wages were considered ranging from a "marginal" part-time situation (in the absence of a floor exempting part-timers of taxes or payments to the social security system, workers in this situation were assumed paid at a rate equal to 25% of the legal minimum wage which was set at 56.7*103PTE in 1996), to 75% of normal full-time hours⁵.

In all the calculations that follow, the only allowance we consider refers to payments to the social security system which is universally granted. All the remaining allowances are not considered as they vary in value and do not apply to all tax payers. Finally, we consider a deduction for each member of the family which is also universal and deducted after the amount of the tax has been computed (this equals 34.5*103PTE for singles, 26.3*103PTE for each individual in the couple, 19,0*103PTE for the first child, and 19,21*103PTE for each additional child).

Starting from the average level of income given by the above mentioned sources, we allow for a specific deduction which applies to all wage income earners (the maximum between 70% of total wage income and the contributions actually paid to the social security system). The household net income per income earner and for the household as a whole is thus obtained. We do not account for any allowances legally granted as they are not universal and vary in value. Therefore, in all cases, net income is

³ The only exception to this rule refers to independent work to which a mandatory minimum tax rate of 25,4%(as opposed to a 34,25% tax for dependent workers) applies. These two taxes are not strictly comparable though because the minimum contribution for independent workers does not provide full coverage (health insurance, insurance against occupational hazards and family allowances are excluded). Full coverage is assured only in cases where workers choose to adhere to an augmented regime in which case the payment rate rises to 32%, even so inferior to the one paid for by dependent workers. The differential between the rates that apply to dependent workers and the one applying to independent workers (although inferior to what it was in the past) is thought to have played an important role in the over-growth of this form of work in Portugal in recent years, even admitting that independent workers are proportionally compensated by the fact that it is their sole responsibility to make payments for the social security system.

⁴ In fact, this average does not refer exclusively to full-timers because data on wages and earnings of full-timers alone for 1996 are not yet available. However, considering the low share of part-time work in Portugal, the bias thus introduced is expected to be minimum .

⁵ In the table that follows, the 75% case is reported under the heading "both full-time". However, considering that a different average income for men and women is used, we interpret this case as a part-time corresponding to 75% of normal full-time hours.

equal to taxable income. This serves as a reference for selecting the tax rate that would apply to the specific case of each member of the household individually and for the household as a whole.

Tables:

Equal Income for men and women

Income after Taxes and Social Security Contributions:													
Average Income (AI) ⁸													
	Gross Earnings			Income Tax in %			Social Security contrib. in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross Earnings
Single	1,784,000	-	-	10.40%		-	11%	-	-	1,402,260	-	-	
Married													
Sole Earner	1,784,000	0	1,784,000	7.98%	0.00%	7.98%	11%	0%	11%	1,445,360	0	1,445,360	81%
Full/Part-Time	1,784,000	198,450	1,982,450	7.98%	0.00%	7.63%	11%	0%	11%	1,445,360	198,450	1,613,050	81%
	1,784,000	446,000	2,230,000	7.98%	0.00%	7.29%	11%	11%	11%	1,445,360	396,940	1,822,230	82%
	1,784,000	892,000	2,676,000	7.98%	0.96%	7.61%	11%	11%	11%	1,445,360	785,280	2,178,040	81%
Both Full Time	1,784,000	1,338,000	3,122,000	7.98%	5.64%	8.84%	11%	11%	11%	1,445,360	1,115,320	2,502,680	80%
	1,784,000	1,784,000	3,568,000	8%	8%	11%	11%	11%	11%	1,445,360	1,445,360	2,788,120	78%

Equal Income for men and women

Income after Taxes and Social Security Contributions: High Income (2 x AI) ¹⁰													
	Gross Earnings			Income Tax in %			Social Security contrib. in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross Earnings
Single	3,568,000	-	-	19.51%		-	11%	-	-	2,479,249	-	-	
Married													
Sole Earner	3,568,000	0	3,568,000	14.25%	0.00%	14.25%	11%	0%	11%	2,667,120	0	2,667,120	75%
Full/Part-Time	3,568,000	198,450	3,766,450	14.25%	0.00%	13.89%	11%	0%	11%	2,667,120	198,450	2,828,857	75%
	3,568,000	446,000	4,014,000	14.25%	0.00%	13.50%	11%	11%	11%	2,667,120	396,940	3,030,610	76%
	3,568,000	892,000	4,460,000	14.25%	0.96%	13.69%	11%	11%	11%	2,667,120	785,280	3,359,000	75%
Both Full Time	3,568,000	1,338,000	4,906,000	14.25%	5.64%	14.71%	11%	11%	11%	2,667,120	1,115,320	3,644,440	74%
	3,568,000	1,784,000	5,352,000	14.25%	7.98%	15.57%	11%	11%	11%	2,667,120	1,445,360	3,929,880	73%
	3,568,000	2,676,000	6,244,000	14.25%	10.67%	17.56%	11%	11%	11%	2,667,120	2,096,240	4,460,417	71%
	3,568,000	3,568,000	7,136,000	14.25%	14.25%	19.74%	11%	11%	11%	2,667,120	2,667,120	4,942,097	69%

Equal Income for men and women

Income after Taxes and Social Security Contributions:													
Low Income (0,75 x AI) ¹²													
	Gross Earnings			Income Tax in %			Social Security contrib. in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross Earnings
Single	1,338,000	-	-	7.00%		-	11%	-	-	1,097,220	-	-	
Married													
Sole Earner	1,338,000	0	1,338,000	5.64%	0.00%	5.64%	11%	0%	11%	1,115,320	0	1,115,320	83%
Full/Part-Time	1,338,000	198,450	1,536,450	5.64%	0.00%	3.56%	11%	0%	11%	1,115,320	198,450	1,312,778	85%
	1,338,000	446,000	1,784,000	5.64%	0.00%	5.36%	11%	11%	11%	1,115,320	396,940	1,492,190	84%
	1,338,000	892,000	2,230,000	5.64%	0.96%	6.13%	11%	11%	11%	1,115,320	785,280	1,848,000	83%
Both Full Time	1,338,000	1,338,000	2,676,000	5.64%	5.64%	7.61%	11%	11%	11%	1,115,320	1,115,320	2,178,040	81%

Gender specific income

<i>Income after Taxes and Social Security contributions: Average Income (AI)</i>													
	Gross Earnings			Income Tax in %			Social Security contributions in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross earnings
Single	1 784 000	-----	-----	10		----	11	-	-	1 402 260	-	-----	
Married													
Sole Eamer	1 784 000	0	1 784 000	8	0	8	11	0	11	1 445 360	0	1 445 360	81%
Full/Part-Time	1 784 000	198 450	1 982 450	8	0	8	11	0	11	1 445 360	198 450	1 613 050	81%
	1 784 000	315 000	2 099 000	8	0	7	11	11	11	1 445 360	280 350	1 711 535	82%
	1 784 000	630 000	2 414 000	8	0	7	11	11	11	1 445 360	560 700	1 977 710	82%
Both Full Time	1 784 000	945 000	2 729 000	8	2	8	11	11	11	1 445 360	824 500	2 217 260	81%
	1 784 000	1 260 000	3 044 000	8	5	9	11	11	11	1 445 360	1 057 600	2 450 360	80%

Gender specific income

<i>Income after Taxes and Social Security contributions: High Income (2*AI)</i>													
	Gross Earnings			Income Tax in %			Social Security contributions in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross earnings
Single	3 568 000	-----	-----	20		----	11	-	-	2 479 249	-	-----	
Married													
Sole Eamer	3 568 000	0	3 568 000	14	0	14	11	0	11	2 667 120	0	2 667 120	75%
Full/Part-Time	3 568 000	198 450	3 766 450	14	0	14	11	0	11	2 667 120	198 450	2 828 857	75%
	3 568 000	315 000	3 883 000	14	0	14	11	11	11	2 667 120	280 350	2 923 845	75%
	3 568 000	630 000	4 198 000	14	0	13	11	11	11	2 667 120	560 700	3 180 570	76%
Both Full Time	3 568 000	945 000	4 513 000	14	2	14	11	11	11	2 667 120	824 500	3 392 920	75%
	3 568 000	1 260 000	4 828 000	14	5	15	11	11	11	2 667 120	1 057 600	3 594 520	74%
	3 568 000	1 890 000	5 458 000	14	8	16	11	11	11	2 667 120	1 523 800	3 997 720	73%
	3 568 000	2 520 000	6 088 000	14	10	17	11	11	11	2 667 120	1 990 000	4 376 177	72%

Gender specific income

<i>Income after Taxes and Social Security contributions: Low Income (0.75*A)</i>													
	Gross Earnings			Income Tax in %			Social Security contributions in %			Net Income			
	A	B	A+B	A	B	A+B	A	B	A+B	A	B	A+B	% of (A+B) Gross earnings
Single	1 338 000	-----	-----	7		----	11	-	-	1 097 220	-	-----	
Married													
Sole Eamer	1 338 000	0	1 338 000	6	0	6	11	0	11	1 115 320	0	1 115 320	83%
Full/Part-Time	1 338 000	198 450	1 536 450	6	0	4	11	0	11	1 115 320	198 450	1 312 778	85%
	1 338 000	315 000	1 653 000	6	0	5	11	11	11	1 115 320	280 350	1 381 495	84%
	1 338 000	630 000	1 968 000	6	0	5	11	11	11	1 115 320	560 700	1 647 670	84%
Both Full Time	1 338 000	945 000	2 283 000	6	2	6	11	11	11	1 115 320	824 500	1 887 220	83%