Taxing Wages – Portugal

Tax on labour income

The ***tax wedge*** is a measure of the tax on labour income, which includes the tax paid by both the employee and the employer.

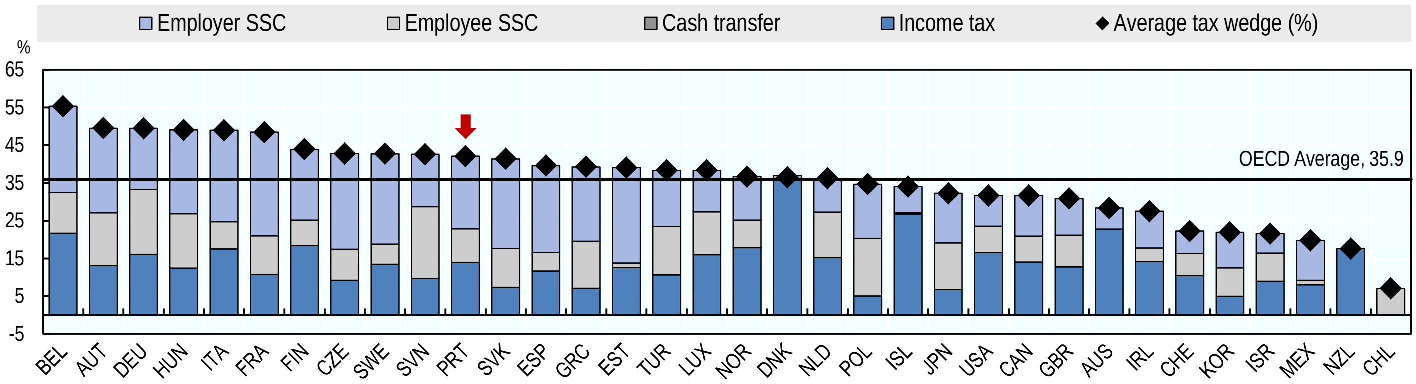
TAX WEDGE ON LABOUR INCOME

$$\frac{(\textbf{Personal income tax} + \textbf{ employee and employer social security contributions (SSCs)}) - \textbf{\textit{Family Benefits}}}{\textbf{Total labour costs (gross wages + employer SSCs)}}$$

Single worker

- Portugal is ranked 11th among the 34 OECD member countries in decreasing order with a tax wedge for an average single worker at 42.1% in 2015, compared with the OECD average of 35.9%. The country occupied the 12th position in 2014.
- In Portugal, income tax and employer social security contributions combine to account for 79% of the total tax wedge, compared with 77% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children

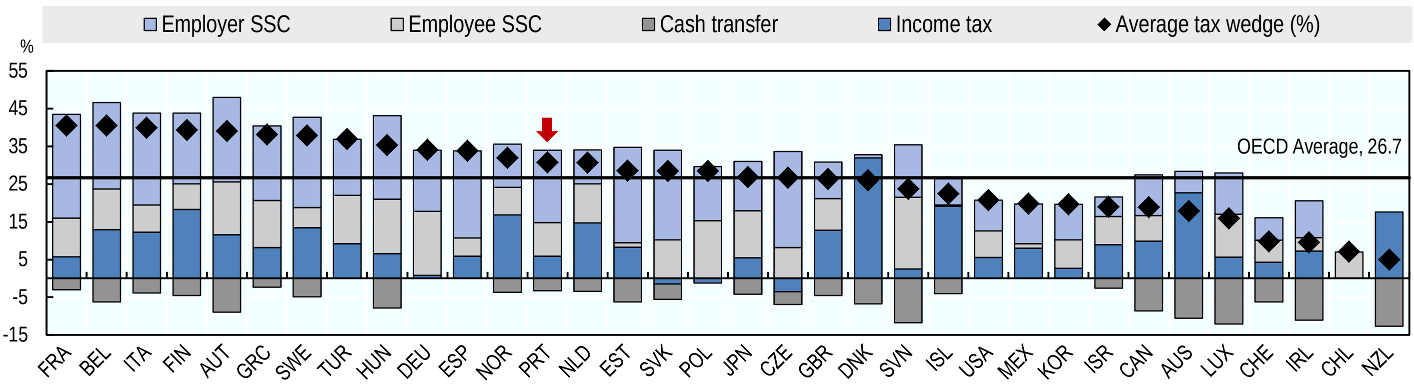


One-earner married couple with two children

Comparing the average single worker with a married worker with two children earning the same income:

- Portugal is ranked 13th in the OECD with a tax wedge for an average married worker with two children at 30.7% in 2015. The OECD average was 26.7%. The country occupied the 15th position in 2014.
- Child related benefits and tax provisions tend to reduce the tax wedge for workers with children compared with the average single worker. In Portugal in 2015, this reduction (11.4 percentage points) was greater than the OECD average (9.2 percentage points).

Average tax wedge: One-earner married couple at average earnings, 2 children



Taxing Wages 2016

BETTER POLICIES FOR BETTER LIVES

Centre for Tax Policy and Administration

Tax wedge trends between 2000 and 2015

- In Portugal, the tax wedge for the average single worker increased by 4.8 percentage points from 37.3 to 42.1% between 2000 and 2015. During the same period, the average tax wedge across the OECD decreased by 0.7 percentage points from 36.6 to 35.9%.

- Since 2009, the tax wedge for the average single worker increased by 5.6 percentage points in Portugal. During this same period, the tax wedge for the average single worker across the OECD increased by 0.9 percentage points.
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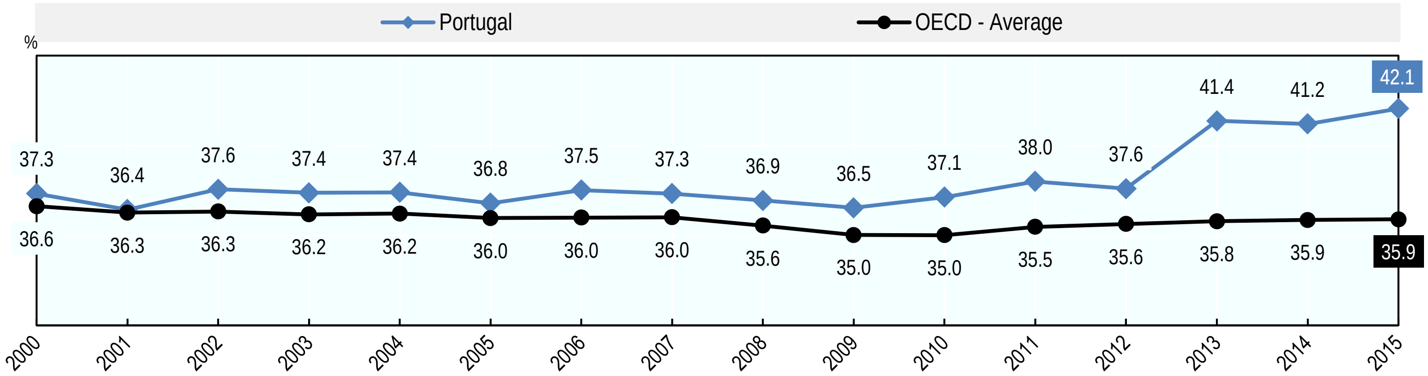
Average tax wedge over time for a single worker



Employee tax on labour income

The employee net average tax rate is a measure of the net tax on labour income paid directly by the employee.

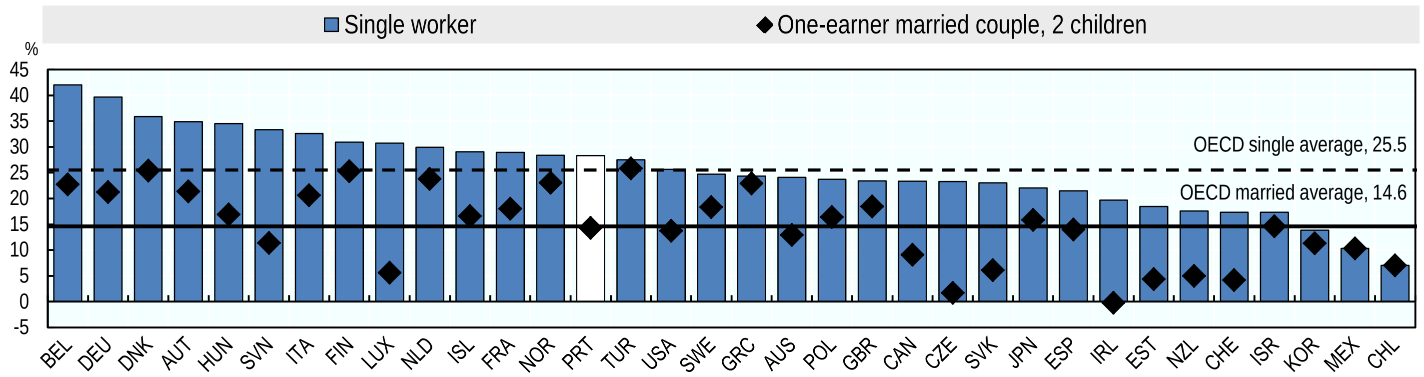
EMPLOYEE NET AVERAGE TAX RATE

$$\frac{(\textbf{Employee personal income tax and employee social security contributions}) - \textbf{\textit{Family Benefits}}}{\textbf{Gross wages}}$$

- In Portugal, the average single worker faced a net average tax rate of 28.3% in 2015 compared with the OECD average of 25.5%. In other words, in Portugal the take-home pay of an average single worker, after tax and benefits, was 71.7% of their gross wage.

- Taking into account child related benefits and tax provisions, the employee net average tax rate for an average married worker with two children in Portugal was reduced to 14.2% in 2015, compared with a reduction to 14.6% for the OECD average. This means that an average married worker with two children in Portugal had a take-home pay, after tax and family benefits, of 85.8% of their gross wage, compared to 85.4% for the OECD average.

Employee net average tax rate



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