
PORTUGAL 2004

1. Overview of the tax-benefit system

Portugal has an insurance-based unemployment benefit system with duration related to age. An unemployment assistance system exists and is related to the unemployment history and economic resources of the recipient. Childcare benefits are made to the provider of childcare and not to the parents or children that attend it. There are no provisions for lone parents. Housing benefits are restricted to people suffering a sudden loss of income, for example through unemployment. They are not meant to be paid permanently. The tax unit is the family.

1.1. *Average worker wage (AW)*

The average worker earned EUR 13 700 in 2004.

2. Unemployment insurance

2.1 *Conditions for receipt*

Unemployment insurance (UI) is compulsory, except for the self-employed (non-applicable). Claimants must be in a situation of involuntary unemployment, have to be capable and available for employment and have to be registered at the employment office.

Unemployment is regarded as involuntary whenever the end of the work contract is due to:

- Unilateral decision by the employer;
- Work contract expiration not determined by pension;
- Contract rescission by the employee with just cause (as long as the employer places no arguments against or placing them the employee proves to have set a legal action against the employer);
- Mutual agreement between employer and employee in the case of companies in situations, such as process of structural re-adaptation or recovery or any other situation that allow for collective dismissal of employees.

Invalidity pensioners who are considered as apt to work are regarded as involuntary workers as well.

2.1.1 *Employment conditions*

The Employment and Social Security Program (*Programa de Emprego e Protecção Social – PEPS*), in force from 1st March 2003, reduced the employment condition for UI eligibility to a 270 day

employment record in the last 12 months. Previously a 540 day employment record in the last 24 months was required.

2.1.2 *Contribution conditions*

The contribution condition coincides with the employment condition.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

The benefit amounts to 65 per cent of the average salary during the 12 months period ending 2 months before unemployment. This calculation takes into account the annual vacation bonus and the Christmas bonus due in the reference period. The maximum benefit amount is three times the national minimum wage (NMW); the minimum amount is the amount of the NMW or of the average remuneration (also referred to as reference remuneration), whichever is lower. The NMW amount in 2004 was EUR 365.60 per month. The unemployment benefit is paid on a monthly basis.

Under the Employment and Social Protection Program, the beneficiaries of the unemployment insurance and social assistance whose households are within the first income level of the family allowance are entitled to receive an extra amount equal to the family benefits to which they are entitled. This measure was in force from 1st March 2003.

2.2.2 *Income and earnings disregards*

The unemployment insurance benefit may be accumulated with part-time work in accordance with some requirements set by law: for insured persons in part-time employment whose income is lower than the value of the unemployment benefit and work between 20 per cent and 75 per cent of the normal work week, the benefit is equal to the difference between 1.35 times the unemployment benefit and the value of part-time work earnings. This was part of the Employment and Social Protection Programme, in force from 1st March 2003 onwards. Prior to this date the multiplier was 1.25.

2.3 *Tax treatment of benefit*

Not taxable.

2.4 *Benefit duration*

There is no waiting period. Duration increases with age according to the following table:

Age	Duration (months)
<30	12
30 – 39	18
40 – 44	24
45+	30

The beneficiaries of 45 years of age or over are entitled to another 2 months for each set of 5 years with registered earnings in the last 20 years preceding the unemployment.

2.5 Treatment of particular groups

2.5.1 Young workers

In the situation of workers in search of the first job there is a temporary exemption concerning the employers' contribution to social security. This exemption has a maximum duration of 36 months.

2.5.2 Older workers

When at the date of the unemployment, the beneficiary is 55 years of age or more, the age of entitlement to the old age pension is anticipated to the 60 years of age provided that at that date the guarantee period required by law is completed. Under the regulations of the Employment and Social Security Program, that came into effect from 1st March onwards, the entitlement to the old age pension may be further anticipated to 58 years old provided that the beneficiary simultaneously has: at least 55 years of age at the date of unemployment; a contributory record of 30 calendar years at the time of his 55th anniversary; and has completed the full 30 months of unemployment insurance or social assistance.

The age of entitlement to the old-age pension is still anticipated to 55 years of age for the beneficiaries that at the date of the unemployment have simultaneously 50 years of age or more and a contributory career of, at least, 20 civil years with registered remuneration. In that case the statutory pension amount is reduced.

As far as pensionable age anticipation is concerned and whenever the unemployed person is not entitled to the sequential Unemployment Social Allowance (granted after the Unemployment Insurance has expired) because his/her income is higher than the limit established by law, that person's insurance career is credited with earnings registration (as if contributions were being paid): for the period following that of maximum entitlement to Unemployment Insurance, until the person concerned meets the requirements for the anticipated old age pension (age and further qualifying conditions).

3. Unemployment assistance

3.1 Conditions for receipt

For receiving the initial Unemployment Social Allowance (USA), claimants have to be between 18 and 65 years of age and have to be registered unemployed looking for work and available for work. This benefit can also be received after expiration of entitlement to UI (sequential Unemployment Social allowance).

Additionally, the Unemployment Social Allowance may be renewed until the age of pensionable age anticipation is reached, provided that: *i*) when unemployment begins the insured person is aged 50 or over; *ii*) by the time of its renewal the insured person continues to meet the qualifying conditions for the Unemployment Social Allowance.

3.1.1 Employment conditions

Any claimant needs to have worked 180 days in the year preceding the claim, unless he/she is a first job seeker with dependents. In addition, this benefit is means tested, which means that the beneficiary must prove that the household earns less than 80 percent of NMW per capita. For the fulfilment of the means test the following sources of income are included:

- Gross earnings from work;

- Pensions and other social benefits that aim to replace the lost income from work, such as sickness subsidy, and complementary benefits to those granted by the social security regimes, *i.e.* benefits granted under private pension or insurance schemes;
- Gross income from capital or other regular profits;
- Maintenance allowance legally set by the Court in favour of the individual applying for the unemployment assistance.

3.1.2 *Contribution conditions*

The contribution condition coincides with the employment condition.

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

Benefit amounts per month are linked to the minimum wage level and depend on family type:

Family type	In % of minimum wage	
	After UI benefit	Not eligible for UI
Single	80	80
With an aggregate	100	100

3.2.2 *Income and earnings disregards*

The Unemployment Social Allowance must not be accumulated with earned income.

3.3 *Tax treatment of benefit*

Not taxable.

3.4 *Benefit duration*

Regarding the beneficiaries of the initial Unemployment Social Allowance the duration is identical to point 2.4. Concerning the sequential Unemployment Social Allowance the duration is reduced to half the duration indicated in point 2.4.

3.5 *Treatment of particular groups*

3.5.1 *Young workers*

Idem 2.5.1.

3.5.2 *Older workers*

Idem 2.5.2 – The Unemployment Social Allowance duration can be extended until the retirement age if the beneficiaries are at least 50 years old at the moment of unemployment and fulfill, at the time of the extension, all the conditions necessary to receive this benefit.

4. Social assistance

The long-term unemployment (LTU) refers to the unemployed simultaneously searching for work and registered in an Employment Center for more than 12 months. There is a temporary exemption concerning the employers' contribution to social security that hires long-term unemployed persons.

The Social Insertion Income (formerly Minimum Guaranteed Income) is focused to support individuals or families in situations of great economic need. The Social Insertion Income (SII) is both a benefit, part of the Social Welfare sub-system of the Public Social Security System, and an insertion programme, with an aim to provide individuals and their households with the means tailored to satisfy their basic needs and allow for a progressive insertion in the labour market, the community and society.

Great economic need is recognized in the following situations:

- Individuals whose income is inferior to 100% of the welfare pension, which was EUR 151.84 per month from 1st Dec 2003 to 30th May 2004, EUR 158.88 per month from 1st June 2004 to 30th November and EUR 164.17 in December.
- Households whose income is inferior to the sum of the following amounts:
 - a) 100% of the welfare pension for each of the first two adults;
 - b) 70% of the welfare pension for each adult starting from the 3rd;
 - c) 50% of the welfare pension for each of the first two minors;
 - d) 60% of the welfare pension for each minor starting from the 3rd;
 - e) In case the entitled individual (if it is a woman), his spouse or person living in *de facto* union with him is pregnant, the amount stated in a) is increased by 30 during pregnancy and by 50% during the child's first year of life.

For SII purposes the calculation of the household income results from the sum of all the income sources (gross income) in the 12 months previous to the requirement, excluding the housing subsidy, family benefits and scholarships. In addition only 80% of labour income after deduction of the contributions to social security is considered to that purpose. Finally, if the entitled individual or a member of his/her family starts a new job during the receipt of the SII, only 50% of that job income is considered for the calculation of the SII benefit amount after deduction of contributions to social security (the renewal of the SII benefit doesn't change this percentage). The resultant income is weighted according to the month order by reference to the date of request, as shown in the following table:

Income month order relating to the date of benefit request	Weight
1 st month prior to request	8
2 nd month prior to request	4
3 rd month prior to request	2
From the 4 th to the 12 th month prior to request	1

4.2 Calculation of benefit amount

The amount of the benefit equals the difference between the individuals/household income and the amount of the SII, calculated according the rules above described. The amount of the benefit must never be inferior to 5% of the welfare pension.

4.4 Benefit duration

For entitlement it is required legal residency in Portugal, the subscription and fulfilment of the Insertion Programme established, to provide evidence for the situation of great economic need and to have at least 18 years of age. There are exceptions to the age condition: if there are dependant minors or in case the entitled individual is pregnant. The beneficiary can re-apply to the SII, after the 12 months duration of the benefit, without interruption by making prove of the necessary conditions until two months prior to the end of the benefit and having complied with the insertion programme.

4.5 Treatment of particular group

4.5.1 Young persons

4.5.2 Older workers

4.5.3 Others if applicable

There are special supports granted to all those in the household that being handicapped, old or chronically ill are also dependent from others to fulfil their basic needs. This support equals:

- 30% of the welfare pension to all handicapped (mentally or physically) or chronically ill members of household that cannot fulfil their basic needs (such as feeding, moving or personal hygiene) independently;
- 50% of the welfare pension to all handicapped (mentally or physically), old or chronically ill members of household that besides not being able to fulfil their basic needs (such as feeding, moving or personal hygiene) independently are also confined to bed or suffering from severe dementia.

This special support adds to the amount of the SII benefit.

5. Housing benefits

Regarding housing benefits, the State supports directly families through three ways: i) the rent subsidy – aimed at the most economical needed households whose housing has been submitted to an extraordinary actualization; ii) the young adults rent incentive; iii) the supported rent regime – social renting of houses built/owned by the State.

In 1985, the DL 46/85 established the possibility of unfreezing the rent actualization, by prescribing a principle of annual actualization of all rents, according to the values determined in an annual legal diploma and allowing the extraordinary correction of the rents frozen before 1980.

The rent subsidy can be divided in three categories: the General Regime, the Special Subsidy for Handicapped Renters (for renters with incapability equal or superior to 60%) and the Special Needs Subsidy (renters receiving one of the fore mentioned subsidies whose economic situation has experienced

severe and sudden deterioration in terms of household income, namely due to unemployment or death of family earner).

5.1 *Conditions for receipt*

The eligibility is granted to renters who suffered an extraordinary correction of the rent value, as long as the household income and rents respect the limits set in an annually published table.

5.2 *Calculation of benefit amount*

The calculation framework in the general regime is based on the rent value, the monthly gross income and the household dimension. The model establishes an equivalence between the income of households with different dimensions, calculating a standard reference income according to the average dimension of the families.

The process to compute the subsidy amount is based in the methodology used to determine annually the maximum limit for rent – which corresponds to the maximum of rent that can be subsidized, according to each household dimension – and also in a function that establishes the effort rate for each level of income.

Standard Income

The household standard income is calculated as follows:

$$\text{Standard income} = [2.40 / f(n)] \times \text{monthly gross income}$$

f (n) is the equivalence factor regarding the income of household with different dimensions, according to the table below. The figure 2.4 is the f(n) value which corresponds to the average Portuguese household.

Household dimension (number of individuals)	f(n)
1	1
2	1.75
3	2.4
4	3
5	3.575
6	4.11
7	4.62
8	5.12
9	5.625
10	6.1

Maximum rent limit

The maximum rent limit is determined according to the suitability of the house regarding the household dimension, the rent rate and the housing prices by square meter of useful area. These parameters are legally defined.

The limits for 2004 are as follows:

Household dimension (number of individuals)	Rent Limit (Euro)
1	93.92
2	130.44
3	151.31
4	169.57
5	190.44
6	203.48
7	213.92
8	234.79
9	258.27
10	273.92

Base Rent

The base rent is computed by applying a percentage to the gross monthly income of the household, as described by the following formula:

$$p = 10 \times R_p / NMW$$

R_p represents the standard income; p represents the percentage.

5.2.1 *Calculation of gross benefit*

The benefit is calculated as follows:

a) if the rent is superior to the rent limit:

$$S = 0,5 \times (R_l - R_b)$$

b) if the rent is equal or inferior to the rent limit:

$$S = 0.5[1 + [(R_1 - R) / (R_1 - R_b)] \times (R - R_b)]$$

R stands for rent; R_1 stands for rent limit; R_b stands for base rent and S stands for subsidy.

5.2.2 *Income and earnings disregards*

The beneficiary loses entitlement whether:

- a) The standard income is superior to three times the NMW;
- b) The base rent is superior to the rent limit;
- c) The rent is inferior to the base rent.

5.3 *Tax treatment of benefit and interaction with other benefits*

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

In 1992 was implemented an incentive by the State for young adults to rent or acquire a house. Nowadays, only the incentive for renting prevails.

The beneficiaries have to fulfil the following conditions:

- a) Age below 30 (in couples both members must have age below 30);
- b) Gross annual income corrected by household dimension equal or inferior to 4,75 times the Annual NMW (ANMW);
- c) Gross annual income compatible with a maximum effort rate of 50% regarding the rent value supported by the renter;
- d) Do not have a house of their own, neither be a leaseholder of another house.

The effort rate is the relation between the monthly rent supported by the household minus the subsidy and the gross annual income divided by 12.

The gross annual income (GAI) is corrected according to the parameters set in the following table:

Household dimension (number of individuals)	Corrected Gross Annual Income (CGAI) (Euro)
1	GAI x 1.3
2	GAI
3	GAI - € 823.02
4	GAI - € 1646.03
5	GAI - € 2469.05
6	GAI - € 3292.07

The incentive amount is fixed as shown in the table below and cannot exceed to 75% of the value of the rent effectively paid. It is conceded yearly and is renewable for a maximum of five times.

Tiers of incentive amount to young adults			
I	II	III	IV
CGAI ≤ 3.25 ANMW	CGAI ≤ 3.75 ANMW	CGAI ≤ 4.25 ANMW	CGAI ≤ 4.75 ANMW
€ 249.40	€ 149.64	€ 74.82	€ 49.88

5.4.2 *Older workers*

5.4.3 *Others if applicable*

6. Family benefits

6.1 Conditions of receipt

There are allowances within the scope of the General Scheme (contributory) and of the non-contributory Scheme.

- Requirements for the allowance within the general scheme (contributory): existence of a register of the remuneration in name of the beneficiary during the 12 months preceding the 2nd month before the date of presentation of the application or of the checking of the fact which determines the allowance.

- Requirements for the allowance within the non-contributory scheme: the allowances are granted to children and youth who have: 1) monthly gross incomes which are equal or lower than 40 per cent of the national minimum wages provided that the income of the respective household is not higher than 1.5 times that wage – General Resources Requirement; or 2) a household with an income per person not higher than 30 per cent the national minimum wage and in situation of risk or social disruption – Special Resources Requirement.

From 1st October onwards the family allowance was changed within the scope of the Family Protection Subsystem (see 12.1 Policy changes introduced in the last year):

- Requirements for entitlement: national or foreign, refugees or stateless children resident in Portugal; with no professional occupation; whose household has reference earnings below the maximum income level; and until the following ages:

16 years old;

Or to the maximum of 24 years of age if enrolled in the school, university, professional training or other training periods, or in case of handicapped children receiving social benefits (this limit may be extended for 3 years in case of accident or disease hampering the school performance of the beneficiary);

6.2 Calculation of benefit amount

Benefits are paid based on age and income. The rules since October, 2003 are as follows: there are two age groups for dependent children: children aged 12 months or less, and children older than 12 months. There are also 6 levels of income (related to the minimum wage). The benefit is paid on a monthly basis.

The ‘income level’ is calculated by adding gross earned income, self-employment income, capital and real estate income, pensions, and any other benefit aiming to replace lost income from work granted by the Solidarity or Insurance Subsystem (including UI, USA, and SII). Any social benefit granted by the Family Protection Subsystem is not considered. This sum is then divided by the number of children in the family, plus one.

Income Level	Reference remunerations related to the minimum wage
First	≤ 0,5 NMW
Second	> 0,5 NMW to ≤ 1 NMW
Third	> 1 NMW to ≤ 1,5 NMW
Fourth	> 1,5 NMW to ≤ 2,5NMW
Fifth	> 2,5 NMW to ≤ 5 NMW
Sixth	> 5 NMW

The family allowance is paid on a monthly basis. Children who are between 6-16 years old during the civil year and belong to the first income level receive a 13th benefit during the month of September (to compensate for schooling expenses) as long as they are enrolled in school. Exceptionally in 2003 this 13th benefit was paid in the month in which the family allowance came into effect - October.

The reference remunerations comprise the sum of all income from each member of the household divided by the number of children of that household that benefit from the family allowance plus 1. The following sources of income are considered:

- Income from work (employee);
- Professional and business income;
- Capital income;
- Land income;
- Patrimony increase;
- Pensions;
- Any other social benefits that aim to replace the lost income from work granted by the Solidarity or Insurance Subsystem.

6.2.1 *Calculation of gross benefit*

The yearly amount (Euros) per child in 2004 were:

Income level	Age ≤ 12 months	Age > 12 months
First	1440	360*
Second	1200	300
Third	960	276
Fourth	600	240
Fifth	360	120

Note: (*) The yearly amount in this case may be €390 when the child is between 6 and 16 years old (age limit) and is entitled to receive the 13th month of benefit.

Those that are included in the 6th income level are not entitled to the benefit.

Note: From 2003 onward, a household with at least one member receiving UI or USA, with income within the first income level of the Family Allowance and with 2 children of 3 and 6 years of age would normally be entitled to receive twice the Family Allowance amount per month.

6.2.2 *Income and earnings disregards*

From 1st October onwards the beneficiaries (children) of the family allowance can't accumulate these allowances with earned income.

6.3 *Tax treatment of benefit*

Family benefits are not taxable.

6.4 *Treatment of particular groups*

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

The family allowance may be increased in case the child is handicapped.

Elegibility conditions for this increased allowance are twofold

- Parents' eligibility conditions (one of the following):
 - Requirements for the allowance within the general scheme (contributory): existence of a register of the remuneration in name of the beneficiary during the 12 months preceding the 2nd month before the date of presentation of the application or of the checking of the fact which determines the allowance.
 - Requirements for the allowance within the non-contributory scheme: the allowances are granted to children and youth who have: 1) monthly gross incomes which are equal or lower than 40 per cent of the national minimum wages provided that the income of the respective household is not higher than 1.5 times that wage – General Resources Requirement; or 2) a household with an income per person not higher than 30 per cent the national minimum wage and in situation of risk or social disruption – Special Resources Requirement.
- Childrens' eligibility conditions: to be handicapped and less than 24 years old and:
 - Be enrolled or qualify for enrolment in a specialized rehabilitation equipment, or;
 - In need of personalized medical or educational support.

The amount added to the family allowance varies according to the age of the child. These are paid on a monthly basis.

Yearly amounts (in euros)

	2001	2002	2003	2004
Until 14 years of age	557,88	585,96	597,72	612,72
From 14 until 18 years of age	812,88	853,56	870,6	892,32
From 18 to 24 years of age	1088,16	1142,64	1165,44	1194,6

7. Childcare for pre-school children

The fraction of children attending crèches is higher in children with 2 and 1 year old whilst children aged 1 year and less have the higher fraction of children attending childminders.

The coverage rate in childcare (below 3 years old) is 22.6 per cent (2003).

Fraction of children in childcare

Type of Childcare	< 1 year	1 year	2 years	3 years
Creche	10,5	18,2	25,4	3,6
Childminder	1,6	1,6	1,0	0,2

Compulsory schooling begins at the age of 6.

7.1 Out-of-pocket childcare fees paid by parents

Rules for fees to be paid for using services, provided by public or non-profit organizations (the latter also called IPSS) are the following:

The family fee is determined through a percentage over the *per capita* income of the household as shown in the table below:

Services and equipments	Income tiers					
	1°	2°	3°	4°	5°	6°
<i>Crèche, childminder and family crèches</i>	15%	22.5%	27.5%	30%	32,5%	35%
<i>ATL (Free-Time Activity Centres – without meals)</i>	5%	7%	10%	12.5%	15%	15%
<i>ATL (Free-Time Activity Centres) – with meals</i>	12.5%	15%	17.5%	20%	22.5%	22.5%
<i>Children's Home</i>	40%	45%	50%	50%	55%	75%

The maximum family fee calculated according to these rules cannot be higher than the real average cost (including administration expenses) per user of the service in question. The estimate of the real average cost amounted to around EUR 300 per month in 2004.

Family fees

Reduction of the family fee:

- 20% reduction in case more than one individual from the same household uses the same establishment;
- 25% reduction in the following cases:
 - When meals are not provided by the establishment or if the user doesn't benefit from it;
 - When justified absent periods exceed 15 days non interpolated.

The institutions may reduce, suspend or excuse the payment of the family fee in special cases in which a careful socio-economic analysis of the household condition concludes that the household cannot afford those fees.

The calculation of the per capita income is made according to the following formula:

$R = (RF-D)/N$, being

R = per capita income

RF = gross monthly household income (sum of all household income/12). The Holidays and Christmas subsidies (i.e. the 2 extra monthly wages – each Portuguese worker usually receives 14 wages during a year of work) are not considered as part of the “gross monthly household income” for this purpose.

D = fixed expenses (these include tax, social contributions, house rent or mortgage payment, average monthly cost related to public transportation, medicine expenses when related to chronic illnesses¹)

N = number of individuals of the household

Per capita income tiers as a percentage of the National Minimum Wage (NMW), used for calculation of the family/user fee:

¹ These two last expenses (public transport and health) may be subject to a maximum limit, which cannot be less than the NMW.

<i>1st tier</i>	Until 30% of NMW
<i>2nd tier</i>	Between 30% and 50% of NMW
<i>3rd tier</i>	Between 50% and 70% of NMW
<i>4th tier</i>	Between 70% and 100% of NMW
<i>5th tier</i>	Between 100% and 150% of NMW
<i>6th tier</i>	Over 150% of NMW

The family fees are generally annually revised and the amounts are legislated.

Childcare fees for crèches and kindergartens are considered as educational/training expenses for tax purposes. As so, 30% of household educational expenses are tax deductible to the limit of 160% of the NMW. In case the household has 3 or more dependents, this limit is increased by an amount correspondent to 30% of the NMW for each dependent, in case all of them have educational/training expenses.

Childcare fees are not taken into account for social assistance.

7.2 Child-care benefits

There are no cash benefits received by parents for children in childcare.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

None

10. Tax system

Portugal has a progressive tax scheme with 6 rates varying between 12 and 40 per cent in 2004. Taxable income and income tax are calculated using the splitting method.

10.1 Income tax

10.1.1.1 Standard allowances

Tax allowances:

- The basic allowance is equal to 72 per cent of 12 times the minimum wage. In 2004, this is EUR 3 158.78 (72% x 12 x 365.60).

Taxable income equals gross earnings minus tax allowances for a single. A couple has a different tax treatment, see 10.1.3.

10.1.1.2 Standard tax credits

- EUR 182.80 for each partner in a couple.
- EUR 219.36 for a single.
- EUR 292.48 for dependant child in case of lone parent.
- EUR 146.24 for dependant child.

10.1.3 *The tax schedule*

Taxable income band (EUR)	Tax rate (%)	Deduction (EUR)
0.00 – 4 266	12	0
4 266.01 – 6 452	14	83.64
6 452.01 – 15 997	24	716.19
15 997.01 – 36 792	34	2 284.48
36 792.01 – 53 322	38	3 727.32
53 322.01 and over	40	4 772.85

Tax liability is calculated using family type specific formulae:

$$\text{Singles: } I = (R \times T) - K - C$$

$$\text{Married couples: } I = (((R / 2) \times T - K) \times 2) - C$$

(if the earnings of one partner do not exceed 95 per cent of the total gross earnings of the family)

Where:

I = tax liable

R = taxable income after reduction of possible allowances

T = tax rate in appropriate bracket

K = deduction per bracket

C = tax credits

No tax is payable if taxable income is below EUR 1 667.63

10.2 *Treatment of family income*

The tax unit is the family.

10.3 *Social security contribution schedule*

The employers pay 23.75% and the employees 11% of the monthly remuneration. The self-employed can chose between a compulsory scheme paying 25.4% and an extended scheme paying 32%.

10.4 Treatment of particular groups

10.4.1 Young persons

10.4.2 Older workers

10.4.3 Others if applicable

Disability or spouse with disability, with an incapacitation equal or superior to 60%:

- The basic allowance is raised by 50%;
- the standard tax credit is raised by 50%;
- 50% of earned income is excluded, to a limit of EUR 13 774.86;
- 30% of pension income is excluded, to a limit of EUR 7 778.74.

Dependent children with disability, with an incapacitation equal or superior to 60%:

- the standard tax credit is raised by 50 %

11. Part-time work

11.1 Benefit rules for part-time work

The worker may change from full-time to part-time work for a pre-determined period up to a maximum of 3 years also due to the need to accompany the sons, adopted children or stepson that live with her, during the first 12 years of their lives. In this case only, the period of time spent in part-time work will be taken into consideration as if it was full-time work for the calculation of any benefit under the general regime of the public social security system for private workers.

11.2 Special tax and social security contribution rules for part-time work

When changing from full-time to part-time the worker is entitled to a temporary reduction in the workers social contribution rate: from the standard 11% to 6%. This temporary reduction will be effective throughout the period of the part-time work until a maximum of 36 months.

12. Policy developments

12.1 Policy changes introduced during the previous year

There were no policy changes introduced during the course of 2004 in the benefits under the scope of Tax and Benefits. Some of the announced changes in the previous country chapter were not carried out as there was a change of Government in the middle of 2004 and new elections were scheduled in the end of the year.

12.2 *Policy changes announced*

The policy changes previously announced by the former Government have no effect due to the results of the national elections held on the 20th February 2005.

According to the electoral programme of the Socialist Party (the winning party of the national elections) there are a set of policy changes than can be expected to happen during course of the next 4 years (presently it is premature to say which will happen during 2005). Among those announced policy changes are: increased family benefits for lone parents; tighter conditions under which unemployed can refuse job offers; and changes in the household incomes considered for SII purposes.