Taxing Wages 2019

BETTER POLICIES FOR BETTER LIVES

Centre for Tax Policy and Administration

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

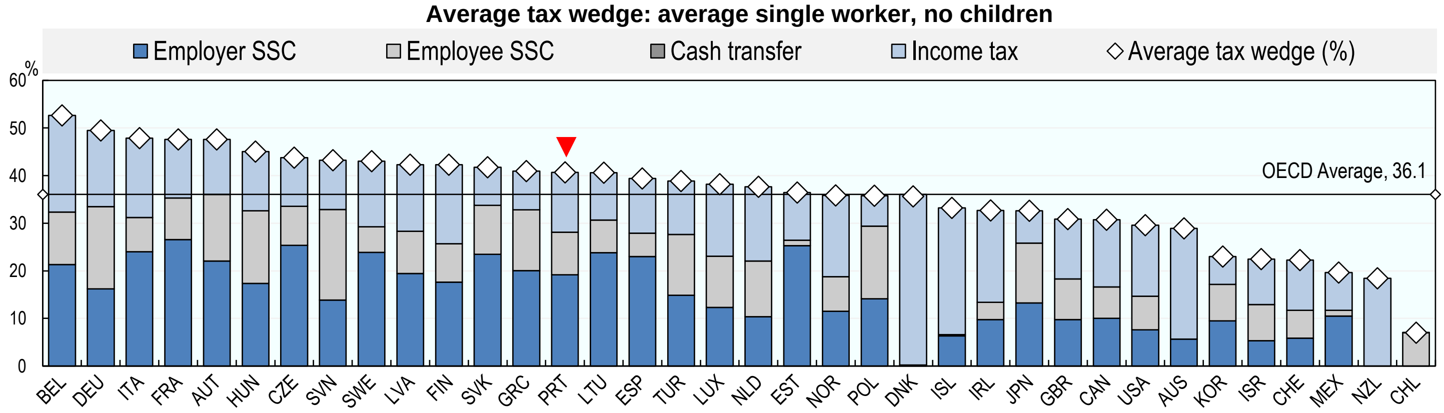
$$\frac{((Personal\ income\ tax +\ employee\ and\ employer\ social\ security\ contributions\ (SSCs)) - Family\ Benefits)}{(Total\ labour\ costs\ (gross\ wages\ +\ employer\ SSCs))}$$

Single worker

» The tax wedge for the average single worker in Portugal decreased by 0.7 percentage points from 41.4 in 2017 to 40.7 in 2018. The OECD average tax wedge in 2018 was 36.1 (2017, 36.2). In 2018 Portugal had the 14th highest tax wedge among the 36 OECD member countries, compared with the 13th in 2017.

» In Portugal, income tax and employer social security contributions combine to account for 78% of the total tax wedge, compared with 77% of the total OECD average tax wedge.

Average tax wedge: average single worker, no children



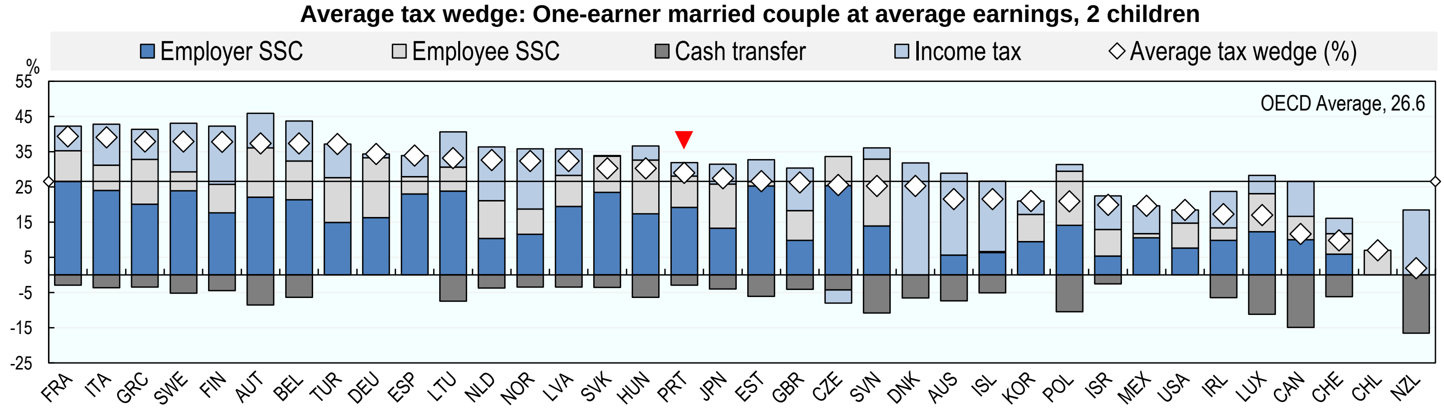
One-earner married couple with two children

The tax wedge for a worker with children may be lower than for a worker on the same income without children, since most OECD countries provide benefits to families with children through cash transfers and preferential tax provisions.

» Portugal had the 17th highest tax wedge in the OECD for an average married worker with two children at 29.0% in 2018, which compares with the OECD average of 26.6%. The country occupied the 18th highest position in 2017.

» 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 2018, this reduction (11.7 percentage points) was greater than the OECD average (9.5 percentage points).

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

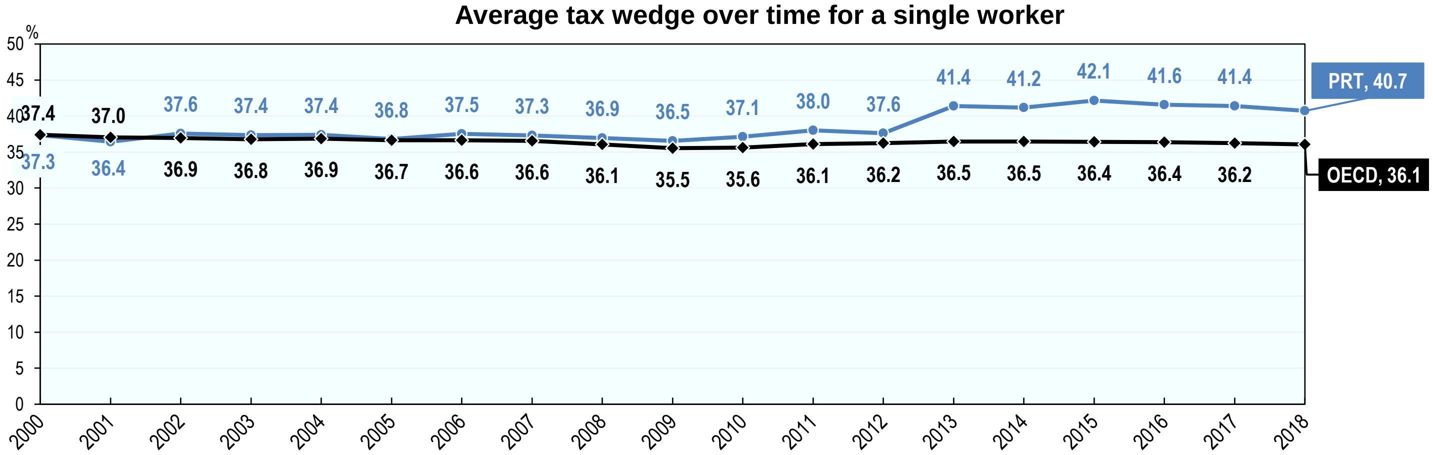


Tax wedge trends between 2000 and 2018

» In Portugal, the tax wedge for the average single worker increased by 3.4 percentage points from 37.3% to 40.7% between 2000 and 2018. During the same period, the average tax wedge across the OECD decreased by 1.3 percentage points from 37.4% to 36.1%.

» Since 2009, the tax wedge for the average single worker increased by 4.2 percentage points in Portugal. During this same period, the tax wedge for the average single worker across the OECD increased by 0.6 percentage points.

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.

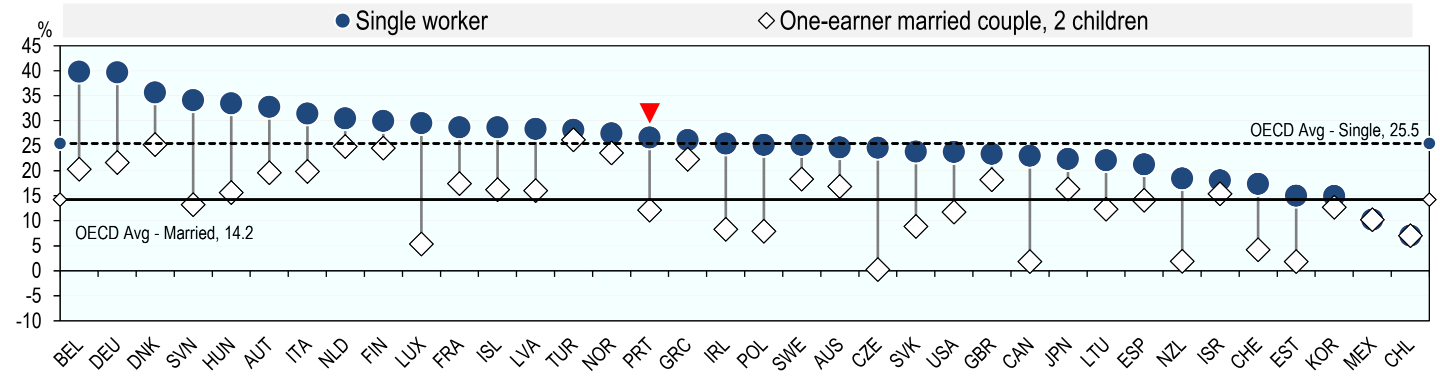
EMPLOYEE NET AVERAGE TAX RATE

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

» In Portugal, the average single worker faced a net average tax rate of 26.6% in 2018, 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 73.4% of their gross wage, compared with the OECD average of 74.5%.

» 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 12.1% in 2018, which is the 24th lowest in the OECD, and compares with 14.2% 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 87.9% of their gross wage compared to 85.8% for the OECD average.

Employee net average tax rate



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