THE OECD TAX-BENEFIT MODEL FOR PORTUGAL

Description of policy rules for 2018
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Description of policy rules for 2018

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Social Policy Division and Jobs and Income Division

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Directorate for Employment, Labour and Social Affairs
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Preface

The OECD Tax-Benefit model (TaxBEN) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of working age (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of stylised families ("vignettes", e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN's policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The Annex provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The reference date for policy rules described in this report is January 1, 2018.
- Guidelines for completing and updating this report are provided here.
- Further information on the model, model results, and references to reports and analytical uses is available on the project website. A methodology document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: [variable name], for instance: [AW] for the average wage.
The OECD tax-benefit model for Portugal: Policy rules in 2018

1. Reference wages

The 2016 average wage [AW] is EUR 17,712.¹

The minimum wage [MIN] in 2018 is EUR 580 per month, but paid 14 times a year including bonus payments in the summer and at Christmas. The annual minimum wage is thus computed by multiplying the minimum monthly wage (as of January 1, 2018) by 14, i.e. EUR 580 * 14 = EUR 8,120.

2. Unemployment benefits

In Portugal, there is an unemployment insurance benefit for those unemployed who have made sufficient past social security contributions, and an unemployment assistance benefit for those whose past contribution record is insufficient, or whose entitlement to unemployment insurance benefits has expired.

2.1. Unemployment insurance (Subsídio de desemprego)

Variable names: [UI_p; UI_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable.

2.1.1. Eligibility conditions

Age: No age conditions.

Contribution/employment history: The employment and contribution condition for UI eligibility is 360 days of employment (with social security contributions) in the 24 months before unemployment.²

Behavioural requirements and related eligibility conditions: TaxBEN assumes that the conditions that the claimant is capable of and available for work and is registered at the employment office are fulfilled.

Unemployment insurance (UI) is compulsory for employees and some categories of self-employed, such as economically dependent self-employed (receiving 80% or more of earnings from a single firm or firms belonging to the entrepreneurship group). Claimants must be in a situation of involuntary unemployment, that is to say that the end of the work contract is due to:

- Unilateral decision by the employer;

¹ AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration. For more information on methodology see the latest Taxing Wages publication.

² For the self-employed 720 days consecutive of professional activity with social security contributions in the last 24 months. Note however that the self-employed are not covered by the TaxBEN model.
• Work contract expiration (other than at retirement age);
• Resignation with just cause (provided these are not successfully defended by the employer);
• Mutual agreement between the employer and the employee in the case of companies in situations such as a process of structural re-adaptation or recovery or any other situation that allow for collective dismissal of employees;
• For the self-employed, losing the contract with the firm or group of firms responsible for at least 80% of their earnings.

Invalidity pensioners who are considered to be able to work as a result of a re-assessment of their incapability are also regarded as involuntary unemployed individuals.  

2.1.2. Benefit amount

**Calculation base:** The average gross salary during the 12 months period ending 2 months before the start of unemployment divided by 360 (30 days per month). This calculation takes into account the annual vacation bonus and the Christmas bonus due during this period.

**Benefit amount:** 65% of the calculation base, up to a maximum of 2.5 times the IAS (Indexante dos Apoios Sociais or Social Support Index, EUR 428.90 per month in 2018). The benefit amount also cannot exceed 75% of the claimant’s previous net earnings (that is, after income tax and social security contributions). The minimum benefit amount is the IAS, or the calculation base if it is lower. The benefit amount is reduced by 10% after 6 months.

2.1.3. Benefit duration

Benefit duration increases with age and contributory record since the last unemployment spell according to the following table (but note that duration is longer for those who had acquired rights to a longer duration before 31 March 2012):

<table>
<thead>
<tr>
<th>Age</th>
<th>Contributory career</th>
<th>Duration (days)</th>
<th>Extended duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;30</td>
<td>≤15 months</td>
<td>150</td>
<td>30 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td></td>
<td>≥15 and &lt;24 months</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td></td>
<td>≥24 months</td>
<td>330</td>
<td></td>
</tr>
<tr>
<td>30 – 39</td>
<td>≤15 months</td>
<td>180</td>
<td>30 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td></td>
<td>≥15 and &lt;24 months</td>
<td>330</td>
<td></td>
</tr>
<tr>
<td></td>
<td>≥24 months</td>
<td>420</td>
<td></td>
</tr>
<tr>
<td>40 – 49</td>
<td>≤15 months</td>
<td>210</td>
<td>45 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td></td>
<td>≥15 and &lt;24 months</td>
<td>360</td>
<td></td>
</tr>
<tr>
<td></td>
<td>≥24 months</td>
<td>540</td>
<td></td>
</tr>
<tr>
<td>≥50</td>
<td>≤15 months</td>
<td>270</td>
<td></td>
</tr>
<tr>
<td></td>
<td>≥15 and &lt;24 months</td>
<td>480</td>
<td></td>
</tr>
</tbody>
</table>

3 Note however that this situation is not covered by the TaxBEN model.
If the individual does not use the extended duration that they are entitled to, because they resume work earlier, this unused entitlement may be taken into consideration when calculating benefit duration during the next unemployment spell.

There is a grandfathering safeguard clause which means that individuals who had already fulfilled the eligibility condition by 31 March 2012 keep the entitlement to the previous UI duration schedule as shown in the following table for their first unemployment spell. This grandfathered entitlement is not taken into account in the TaxBEN model.

<table>
<thead>
<tr>
<th>Age</th>
<th>Contributory career</th>
<th>Duration (days)</th>
<th>Extended duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥24 months</td>
<td></td>
<td>540</td>
<td>60 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td>&lt; 30</td>
<td>≤ 24 months</td>
<td>270</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>&gt; 24 months</td>
<td>360</td>
<td>30 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td>30 – 39</td>
<td>≤ 48 months</td>
<td>360</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>&gt; 48 months</td>
<td>540</td>
<td>30 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td>40 – 44</td>
<td>≤ 60 months</td>
<td>540</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>&gt; 60 months</td>
<td>720</td>
<td>30 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
<tr>
<td>≥ 45</td>
<td>≤ 72 months</td>
<td>720</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>&gt; 72 months</td>
<td>900</td>
<td>60 days for each group of 5 years of contributory record in the last 20 years</td>
</tr>
</tbody>
</table>

2.1.4. Means test

The benefit is not means-tested, but there are special rules concerning combining benefit receipt and earnings from work (see Section 2.1.7 below).

2.1.5. Tax treatment

The benefit is not taxable.

2.1.6. Interactions with other components of the tax-benefit system

It is not possible to receive unemployment insurance and unemployment assistance benefits simultaneously. It is possible to receive unemployment insurance and social assistance
simultaneously, but unemployment insurance benefits are included in the income definition for the social assistance means test. Unemployment insurance benefits are also included in the income definition for the means test for family benefits.

Unemployment insurance benefits cannot be accumulated with pensions with the exception of pensions for occupational risks.

Unemployment insurance benefit is suspended if the claimant is entitled to maternity, parental or adoption benefits.

2.1.7. Combining benefit receipt and employment/starting a new job

Unemployment insurance benefits may be accumulated with part-time work (where the normal working period per week is less than full-time work in a comparable situation) or self-employment if the earnings from work are less than the benefit amount. The employer must pay the wages set under the collective bargaining agreement. In this situation, the UI benefit is equal to the difference between 1.35 times the unemployment benefit and the earnings from part-time work or self-employment. However, if 1.35 times the unemployment benefit is less than the minimum guaranteed salary plus total earnings and the partial unemployment insurance benefit is also less than the minimum guaranteed salary, the full amount of unemployment insurance benefit is retained.

In certain cases not simulated in the TaxBEN model, an unemployed worker who accepts a job offer with earnings lower than their unemployment benefits is entitled to the following benefits that encourage the acceptance of the work position including:

- Financial support equivalent to 50% of unemployment benefits during the first six months, in compliance with certain limits;
- Financial support equivalent to 25% of unemployment benefits in the following six months, in compliance with certain limits;

The maximum duration of this policy of accumulation is 12 months, and it is only available until the end of the UI entitlement period.

2.2. Unemployment Social Allowance (Subsídio Social de Desemprego)

Variable name: [UA]

This benefit is contributory, means-tested and not taxable.

2.2.1. Eligibility conditions

Age: No age conditions.

Contribution/employment history: The employment and contribution condition for Unemployment Social Allowance (USA) eligibility is 180 days of employment (with social security contributions) in the year before unemployment. The claimant must be completely unemployed (i.e. not engaged in any paid work) at the point of making the claim.

Behavioural requirements and related eligibility conditions: TaxBEN assumes that the conditions that the claimant is capable of and available for work and is registered at the employment office are fulfilled.

USA entitlement is dependent on several conditions including unemployment being involuntary and sustained, residence in the national territory and compliance with the
means test. The job-search conditions for becoming and remaining entitled to USA are similar to the ones applied for UI (see Section 2.1.1 above).

2.2.2. **Benefit amount**

**Calculation base:** The benefit amount is based on the Social Support Index or IAS, which was EUR 428.90 per month in 2018.

**Benefit amount:** The amount for a household is based on the IAS. It is 80% of the IAS for a single-person household, and 100% of the IAS for a household of two or more.

2.2.3. **Benefit duration**

For those who are not entitled to UI, the duration is the same as for UI as described in Section 2.1.3. For those who had previously been entitled to UI, the duration is half their UI duration (see Section 2.1.3 for details). An extraordinary measure in 2018 allows long-term unemployed persons who have already exhausted their regular UA entitlement and who have subsequently been without any unemployment benefit for 180 days, to be entitled to a benefit equal to 80% of the regular USA amount, for a period of 180 days, provided they continue to fulfil the eligibility conditions.

For those aged 52 or over when they became unemployed, USA may be renewed until an early retirement pension can be claimed at the age of 57, provided that the claimant continues to meet the eligibility criteria for UA. (Note that as the TaxBEN model does not include early retirement pensions, it cannot be used to simulate the situation of an unemployed person aged over 57 in Portugal).

2.2.4. **Means test**

The USA is a means-tested benefit: the household’s monthly income per capita must be less than 80% of the IAS. The monthly income per capita is calculated by dividing total household reference income by the household’s OECD equivalence scale (that is, where the first adult is given a weight of 1, other adults a weight of 0.7 and children a weight 0.5). Reference income includes gross earnings plus income from capital including bank interest and dividend income. Furthermore, 5% of the nominal value of financial assets is also considered as income. If the household owns financial assets (bank accounts, shares, investment funds, etc.) worth more than EUR 102,936 (240 times the value of the IAS) there is no USA entitlement.

If the household owns real estate, this asset is also taken into account in the means test. The value of the household’s primary residence is not taken into account if it is less than EUR 193,005 (450 times the IAS). However, if the tax valuation of the primary residence is above that threshold, 5% of the excess is counted as income. For subsequent properties the larger of rental income and 5% of the tax valuation is counted as income for the purposes of the means test. Note, however, that the TaxBEN model does not take these provisions relating to unearned income and capital into account: it assumes that the household has no financial assets, and that if the household owns their own home, its value is less than the threshold mentioned above.

2.2.5. **Tax treatment**

Not taxable.
2.2.6. Interactions with other components of the tax-benefit system

It is not possible to receive unemployment insurance and USA benefits simultaneously. It is possible to receive USA and social assistance simultaneously, but unemployment assistance is included in the income definition for the social assistance means test. Unemployment assistance is also included in the income definition for the means test for family benefits.

Unemployment assistance cannot be accumulated with pensions with the exception of pensions for occupational risks.

2.2.7. Combining benefit receipt and employment/starting a new job

The claimant of USA must be fully unemployed: if they start work for a period of less than 3 years, the claim is suspended, and it is terminated after 3 years of paid work. The claimant’s spouse may work, but any earnings from work are taken into account in the means test as described in Section 2.2.4.

3. Social assistance and housing benefits

3.1. Social Insertion Income (Rendimento Social de Inserção)

Variable name: [SA]

This is a non-contributory benefit, means-tested and not taxable.

The Social Insertion Income (SII) supports individuals or families in situations of great economic need. The Social Insertion Income (SII) is both a cash benefit and an activation programme that provides both basic needs and encourages insertion into the labour market, community and society through the provision of an insertion contract with several actions adapted to the members of the household.

3.1.1. Eligibility conditions

Age: At least 18 years of age; unless the claimant has a monthly income above 70% of SII, dependent children (whose monthly income does not exceed 70% of SII), is pregnant or married or has had a partner for more than 2 years.

To be entitled to the benefit, legal residency in Portugal is required and the household must agree to and fulfil the conditions of an Insertion Programme (that includes availability for work, training or any adequate measure for insertion), being registered at the employment centre when unemployed and capable for work. The family must also fulfil the conditions of the means test (see Section 3.1.4 below).

If an individual becomes voluntarily unemployed they can only claim the Social Insertion Income entitlement after one year of unemployment.

3.1.2. Benefit amount

The benefit maximum amount and eligibility threshold are indexed to the IAS multiplied by an indexation factor, which in 2018 is 43.525 %. The basic benefit amount in 2018 is thus EUR 186.68 per month. The maximum benefit amount is 100% of this amount for the first adult, plus 70% of this amount for each additional adult in the household, plus 50% of this amount for each child in the household.
3.1.3. **Benefit duration**  
Subject to annual renewal, but can be renewed indefinitely (as long as entitlement conditions are met).

3.1.4. **Means test**  
The benefit amount is reduced by total household income. For SII purposes, the household income measure is the sum of all income sources in the month previous (or the average of the previous 3 months in the case of independent workers or workers with variable wages), excluding family benefits. However, only 80% of labour income after social security contributions (but not income tax) is taken into account. The household income measure thus includes,
- earnings net of social security contributions, but not income tax,
- gross income from capital,
- gross property income,
- pension income,
- income from social benefits (except family benefits and disability and long-term care benefits),
- regular housing benefits,
- monthly grants, if included in the exercise of occupational activities of social interest related to employment programmes

If the household benefits from social housing, the household income is increased by:
- EUR 15.45 during the first year of SII;
- EUR 30.91 on the first annual renewal of SII;
- EUR 46.36 from the second annual renewal onwards.

If the household owns real estate, these assets are also considered in the means test. The household’s primary residence is not considered if it is worth less than EUR 193,005 (450 times the IAS). If the tax valuation of the primary residence is above this threshold, 5% of the difference is taken into account. For other properties, the larger of rental income and 5% of the tax valuation of the property is included as income in the means test.

The reference income includes capital income, including bank interest and dividends. 5% of the value of financial assets is also added to the income measure. If the household owns financial assets worth more than EUR 25,734 (60 times the value of the IAS) there is no entitlement to SII.

Note, however, that the TaxBEN model does not take these provisions relating to unearned income and capital into account: it assumes that the household has no financial assets, and that if the household owns their own home, its value is less than the threshold mentioned above.

3.1.5. **Tax treatment**  
The benefit is not taxable.
3.1.6. *Interaction with other components of the tax-benefit system* 

Claimants of unemployment benefits can also receive SII, but income from these benefits is included in the income measure for the SII means test. Claimants of SII can also receive family benefits, but SII is included in the income definition for the means test for family benefits.

3.1.7. *Combining benefit receipt and employment/starting a new job*

It is possible to work while claiming SII benefits, but 80% of earnings from work (net of social security contributions but not income taxes) is considered for calculation of the benefit amount. For the first 12 months (consecutive or not) after returning to employment, this proportion is reduced to 50%.

4. *Family benefits*

4.1. *Family benefit* (*Abono de Família para Crianças e Jovens*)

Variable name: [FB]

This is a non-contributory benefit; it is means-tested but is not taxable.

4.1.1. *Eligibility conditions*

Benefits are provided to families with children under the age of 16 or up to 24 if the child is disabled or in full time education; Access to benefits also depends on the children residing (or having an equivalent status) in Portugal, not working (except during school holidays). The family must also satisfy a means test (see Section 4.1.4 below).

4.1.2. *Benefit amount*

The family allowance is paid on a monthly basis. An additional monthly amount is payable in September to families in the first income bracket to compensate for the costs of education if the children are aged between 6 and 16 years and are enrolled in school.

Children aged between 12 months and 36 months (inclusive) are entitled to a higher amount of Family Allowance if they live in a family with at least two children. Monthly amounts also vary by income band, defined in relation to the IAS (for more details, see Section 4.1.4 below).

Lone-parent families are entitled to an increase of 35% in the family allowance.

The monthly per-child amounts are as follows:
### Family benefits

Family benefits also include a prenatal family allowance (granted to pregnant women for compensation for increased expenses), which is paid up to the 3rd income bracket, consisting of the same amounts as the family allowances for children up to 12 months for couple and lone-parent families. This situation is not simulated in the TaxBEN model.

The family allowance may be increased if the child is handicapped (though note that this situation is not simulated by the TaxBEN model). The amount added to the family allowance varies according to the age of the child. If the handicapped child lives in a lone-parent family, these amounts are increased by 35%. They are paid on a monthly basis as follows:

#### Additional monthly amounts for disabled children

<table>
<thead>
<tr>
<th>Handicapped child</th>
<th>Couple families</th>
<th>Lone parent families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Until 14 years of age</td>
<td>EUR 61.57</td>
<td>EUR 83.12</td>
</tr>
<tr>
<td>From 14 until 18 years of age</td>
<td>EUR 89.67</td>
<td>EUR 121.05</td>
</tr>
<tr>
<td>From 18 to 24 years of age</td>
<td>EUR 120.04</td>
<td>EUR 162.05</td>
</tr>
</tbody>
</table>

### 4.1.3. Benefit duration

As long as the eligibility conditions hold.

### 4.1.4. Means test

The benefit amount depends on the family’s reference income. The reference income comprises the sum of all income from each member of the household divided by the number

### Table: Family Benefits

<table>
<thead>
<tr>
<th>Type of Family</th>
<th>&lt; 0.5 IAS</th>
<th>0.5-1 IAS</th>
<th>1-1.5 IAS</th>
<th>1.5-2.5 IAS</th>
<th>&gt;2.5 IAS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Couple family</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Each child &lt; 12 months</td>
<td>EUR 146.42</td>
<td>EUR 120.86</td>
<td>EUR 95.08</td>
<td>EUR 18.91</td>
<td></td>
</tr>
<tr>
<td>Each child between 12 and 36 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Families with 1 child</td>
<td>EUR 73.21</td>
<td>EUR 60.43</td>
<td>EUR 49.93</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Families with 2 children</td>
<td>EUR 109.81</td>
<td>EUR 90.65</td>
<td>EUR 77.28</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Families with 3 or more children</td>
<td>EUR 146.41</td>
<td>EUR 120.87</td>
<td>EUR 104.62</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Each child &gt;36 months</td>
<td>EUR 36.60</td>
<td>EUR 30.22</td>
<td>EUR 27.35</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td><strong>Lone-parent family</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Each child &lt; 12 months</td>
<td>EUR 197.67</td>
<td>EUR 163.16</td>
<td>EUR 128.36</td>
<td>EUR 25.53</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Each child between 12 and 36 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Families with 1 child</td>
<td>EUR 98.83</td>
<td>EUR 81.58</td>
<td>EUR 67.41</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Families with 2 children</td>
<td>EUR 148.24</td>
<td>EUR 122.38</td>
<td>EUR 104.33</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Families with 3 or more children</td>
<td>EUR 197.65</td>
<td>EUR 163.17</td>
<td>EUR 141.24</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
<tr>
<td>Each child &gt;36 months</td>
<td>EUR 49.41</td>
<td>EUR 40.80</td>
<td>EUR 36.92</td>
<td>EUR 0</td>
<td>EUR 0</td>
</tr>
</tbody>
</table>
of children of that household that benefit from the family allowance plus 1. The value calculated is then compared to the IAS. The following sources of income are considered:

- Gross earnings (except earnings of young people working during school holidays);
- Professional and business income;
- Capital income (e.g. bank interest and dividends);
- Land and real estate income;
- Pensions;
- Alimony;
- Any other social benefits (except disability and long term care benefits);
- Regular housing benefits.

For the self-employed, earnings are calculated as 75% of services provided plus 15% of the value of product sales.

As well as capital income, 5% of the value of financial assets is also considered as income. Moreover, if the household owns assets (bank accounts, shares, investment funds, etc.) worth more than EUR 102,936 (240 times the value of the IAS) there is no entitlement to family benefits.

If the household benefits from social housing, then the difference between the technical price and the supported rent price is also considered as income. In this case, household income is increased by:

- EUR 15.45 in the first year;
- EUR 30.91 from the first annual renewal;
- EUR 46.36 from the second annual renewal onwards.

If the household owns real estate, these assets are also considered in the reference income. The household’s primary residence is not considered if it is worth less than EUR 193,005 (450 times the IAS). If the tax evaluation of the own house is above this threshold, 5% of the difference is counted as income. For other properties, the larger of rental income and 5% of tax valuation is counted as reference income. (Note, however, that the TaxBEN model does not take these provisions relating to unearned income and capital into account: it assumes that the household has no financial assets, and that if the household owns their own home, its value is less than the threshold mentioned above.)

This total income is then divided by the number of children in the family, plus one. Families are then put into one of five income levels depending on how the result of this calculation compares to the IAS:

- Level 1: Families whose reference income is under 50 per cent of 14 times the reference value (i.e. under EUR 3 002.30 per year);
- Level 2: Families whose reference income is over 50 per cent and under 100 per cent of 14 times the reference value (i.e. over EUR 3 002.30 and under EUR 6 004.60 per year);
- Level 3: Families whose reference income is over 100 per cent and under 150 per cent of 14 times the reference value (i.e. over EUR 6 004.60 and under EUR 9 006.90 per year);

- Level 4: Families whose reference income is over 150 per cent and under 250 per cent of 14 times the reference value (i.e. over EUR 9 006.90 and under EUR 15 011.50 per year);

- Level 5: Families whose reference income is over 250 per cent of 14 times the reference value (i.e. over EUR 15 011.50 per year).

4.1.5. Tax treatment

The benefit is not taxable.

4.1.6. Interaction with other components of the tax-benefit system

The benefit can be received together with any other benefit.

4.1.7. Combining benefit receipt and employment/starting a new job

It is possible to combine benefit receipt and employment, but earnings are taken into account in the means test (see Section 4.1.4).

5. Childcare for pre-school children

The reference date for the policy rules described in this section is January 1, 2018.4

In Portugal, children can participate in crèches and pre-schools run by public or non-profit organisations. Indirect support is provided to most childcare institutions through Cooperation Agreements, in return for which institutions must give priority access to children from low income families, and comply with the rules for family fee calculation outlined in Section 5.2.3 below.

5.1. Gross childcare fees

Variable name: [PTcc_cost]

The maximum family fee 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 345 per month in 2009. In the TaxBEN model, the gross fee for January 2018 is calculated by uprating this amount in line with CPI inflation. This gives a value of EUR 383.29 per month.

5.1.1. Discounts for part-time usage (not modelled)

None.

5.2. Fee discounts and free provision

Variable name: [cc_subsidy]

---

4 The childcare module of the tax-benefit model is updated every three year (next update: 2018).
The family fee is determined through a percentage over the per capita income of the household. The percentage itself varies by household income.

5.2.1. Eligibility

All households for whom the assessed family fee is less than the actual cost benefit from this subsidised provision.

5.2.2. Amount of discount or free provision

See Section 5.2.3 below.

5.2.3. Variation by income

The percentage of per capita income varies by income tier (defined below) and type of institution as shown in the following table:

<table>
<thead>
<tr>
<th>Services and equipment</th>
<th>Income tiers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crèche, childminder and family crèches</td>
<td>1st</td>
</tr>
<tr>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>ATL (Free-Time Activity Centres) – without meals</td>
<td>5%</td>
</tr>
<tr>
<td>ATL (Free-Time Activity Centres) – with meals</td>
<td>12.5%</td>
</tr>
<tr>
<td>Children’s Home</td>
<td>40%</td>
</tr>
</tbody>
</table>

However, 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, as discussed in Section 5.1.1 above.

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

\[ R = \frac{(RF - D)}{N} \]

where

RF = gross monthly household income (sum of all annual household income/12). The holiday and Christmas subsidies (i.e. the 2 extra monthly wages that each Portuguese worker usually receives 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 illnesses). In the TaxBEN model, only rent is included in these expenses – all other expenses are assumed to be zero.

N = number of individuals of the household

The per capita income is then divided by the National Minimum Wage (NMW, EUR 580 per month for 2018). The payment tier depends on this percentage calculation as follows:

\[ ^5 \text{Note that the TaxBEN model considers the case of a crèche, the case highlighted in the table.} \]
<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st tier</td>
<td>Less than 30% of NMW</td>
</tr>
<tr>
<td>2nd tier</td>
<td>Between 30% and 50% of NMW</td>
</tr>
<tr>
<td>3rd tier</td>
<td>Between 50% and 70% of NMW</td>
</tr>
<tr>
<td>4th tier</td>
<td>Between 70% and 100% of NMW</td>
</tr>
<tr>
<td>5th tier</td>
<td>Between 100% and 150% of NMW</td>
</tr>
<tr>
<td>6th tier</td>
<td>More than 150% of NMW</td>
</tr>
</tbody>
</table>

The family fee is further reduced by 20% if more than one child from the same household uses the same facility, or by 25% if meals are not provided by the establishment or the child does not benefit from them, or if justified absent periods exceed 15 consecutive days.

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

5.3. Child-care benefits for formal centre-based care

Variable name: [cc_benefit]

There are no special childcare benefits in Portugal.

5.3.1. Eligibility

5.3.2. Benefit amount

5.3.3. Benefit duration

5.3.4. Means test

5.3.5. Tax treatment

5.3.6. Interaction with other benefits

5.3.7. Combining benefit receipt and employment/starting a new job

5.4. Child care allowance for children not using child care centers

None.

5.5. Tax concessions for childcare expenditures

Variable name: [cc_ded]

Childcare fees for crèches and kindergartens are considered as educational/training expenses for tax purposes.

5.5.1. Eligibility

All families paying childcare fees for crèches or kindergartens.

5.5.2. Maximum amount

Tax credit of 30% of household educational expenses up to a limit of EUR 800.
5.5.3. **Variation by income**

None, though as tax credit is not refundable it is worth less to lower-income families.

5.5.4. **Impact on overall income tax calculation**

The amount of the credit is deducted from the family’s overall income tax liability, but it is non-refundable.

6. **In-work benefits**

Variable name: [IW]

There are no employment-conditional benefits in Portugal.

6.1.1. **Eligibility conditions**

6.1.2. **Benefit amount**

6.1.3. **Benefit duration**

6.1.4. **Means test**

6.1.5. **Tax treatment**

6.1.6. **Interaction with other components of the tax-benefit system**

7. **Social security contributions and payroll taxes**

7.1. **Social security contributions**

Variable names: [SOCSEC_p; SOCSEC_s; SSCR_p; SSCR_s]

In 2018, employee social insurance contributions in Portugal are 11% of gross earnings, with no ceiling.

The employer’s rate of social security contributions is 23.75 per cent of gross pay, with no ceiling.

The contribution rate of self-employed persons and their spouses helping in the business is 29.6% (reduced rates apply to certain groups). A higher rate of 34.75% applies to the self-employed engaged in commercial or industrial activities. A lower rate of 28.3% applies to farmers and their spouses helping in the business. Contracting entities must pay social security contributions of 10% of turnover (when they benefit from more than 80% of the self-employed worker activity) or 7% (when the activity of the self-employed worker for the contracting entity represents between 30 and 50%). (Note that the situation of self-employed workers is not simulated in the TaxBEN model, however).

Special rates apply to certain groups (though none of these situations are simulated in the TaxBEN model):

- Workers who have concluded pre-retirement agreements establishing the suspension or reduction of work: 8.6% employee, 18.3% employer.
• Active Workers aged 65 years or more with a 40 year insurance period: 8% employee, 17.3% employer.
• Disability pensioners: 8.9% employee, 19.3% employer.
• Old age pensioners: 7.5% employee, 16.4% employer.
• Workers with a disability: 11% employee, 11.9% employer.

8. Taxes

In Portugal, the standard rule is individual taxation. However, families may opt for joint taxation, and this is generally more favourable (this option is assumed in the TaxBEN model). Income includes the income of any dependent children. Tax is computed on total net income after the deductions for each specific category of income and standard and non-standard reliefs.

8.1. Personal income tax

Variable name: [IT]

8.1.1. Tax allowances

The amount of the standard deduction is €4,104. If employee social security contributions exceed this amount, the deduction is equal to the amount of those contributions.

A deduction is provided for trade union dues excluding those related to benefits such as health care, education, assistance for the elderly, housing, insurance or social security, up to a maximum of 1% of the taxpayer’s gross income increased by 50%. (Note that this is not simulated in the TaxBEN model).

8.1.2. Tax base

All benefits considered in the TaxBEN model are not taxable. The tax base is calculated as employment income minus tax allowances. To determine taxable income, to which the rates listed in the tax schedule are applied (see Section 7.1.3 below), income is divided by the marital quotient (1 for single people, 2 for a married couple).

8.1.3. Income tax schedule

<table>
<thead>
<tr>
<th>Taxable income (EUR) (R)</th>
<th>Marginal tax rate (%) (T)</th>
<th>Amount to deduct (EUR) (K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 7 091</td>
<td>14.50</td>
<td>--</td>
</tr>
<tr>
<td>Over 7 091 up to 10 700</td>
<td>23</td>
<td>503.46</td>
</tr>
<tr>
<td>Over 10 700 up to 20 261</td>
<td>28.50</td>
<td>944.84</td>
</tr>
<tr>
<td>Over 20 261 up to 25 000</td>
<td>35.00</td>
<td>2 287.13</td>
</tr>
<tr>
<td>Over 25 000 up to 36 856</td>
<td>37.00</td>
<td>2 687.13</td>
</tr>
<tr>
<td>Over 36 856 up to 80 640</td>
<td>45.00</td>
<td>5 045.91</td>
</tr>
<tr>
<td>Over 80 640</td>
<td>48.00</td>
<td>6 981.27</td>
</tr>
</tbody>
</table>
The amount of tax payable is then multiplied by the marital quotient (1 for single people, 2 for married couples).

For taxpayers whose income stems primarily from dependent employment and pensions (earned income), disposable income after tax may not be less than 1.5 times the Social Benefits Index per taxpayer in 2018. No income tax is payable if income after tax would otherwise be less than this amount.

For residents in the Autonomous Regions of the Azores, reduced tax rates are applicable (this situation is not simulated in the TaxBEN model).

8.1.4. Tax credits

Basic credits:

- EUR 600 for each dependent child. This tax credit is increased by 126 euros for dependent children whose age does not exceed 3 years old.

- EUR 525 for each ascendant whose income does not exceed the minimum pension benefit. When there is only one ascendant, the tax credit increases by EUR 110. (Note that this credit is not simulated in the TaxBEN model).

- A deduction of 4 times the ISA is provided for handicapped taxpayers and a deduction of 2.5 times the ISA is provided for handicapped dependents or ascendants. (Note that this credit is not simulated in the TaxBEN model).

Other tax credits:

- 35% of household general expenses up to a limit of 250 euros, per taxpayer; this limit is increased to 45% and 335 euros, respectively, for single parents. (Note that this credit is not simulated in the TaxBEN model).

- 15% of VAT paid for certain services (restaurants, lodging, hairdressers, veterinarians and auto-repair) up to a limit of EUR 250. (Note that this credit is not simulated in the TaxBEN model).

- 15% of non-reimbursed health care costs, not covered by Social Security, up to a limit of EUR 1000. (Note that this credit is not simulated in the TaxBEN model).

- Expenditures for educating the taxpayer or the taxpayer’s dependants: 30% of outlays, up to 800 euros.

- 25% of the Cost of sanatoriums or retirement homes for taxpayers, their ascendants and other family members up to the third collateral degree whose income does not exceed the national minimum wage up to a maximum EUR 403.75. (Note that this credit is not simulated in the TaxBEN model).

- 15% of mortgage interest on a primary residence up to a maximum of € 296, and 15% of rent paid for the primary residence up to € 502. These limits are increased for taxpayers in the first tax rate bracket to € 450 and €800, respectively, and for taxpayers with income above the first rate bracket upper limit and below €30 000, according, respectively, to the formulas below:

---

6 The 2011 State Budget stated that the amount to consider should be of € 475 (the highest monthly minimum wage for 2010) until the ISA reaches this value.
296 + \left(450 - 296\right) \times \left(\frac{30000 - \text{liable income}}{30000 - 7091}\right)

502 + \left(800 - 502\right) \times \left(\frac{30000 - \text{liable income}}{30000 - 7091}\right)

(Note that this credit is not simulated in the TaxBEN model).

- 20% of alimony payments compulsory under court order or court-approved agreement. (Note that this credit is not simulated in the TaxBEN model).
- 30% of education expenditures and 25% of life insurance premiums, up to a limit of 15% of the tax liability, for handicapped taxpayers or dependents. (Note that this credit is not simulated in the TaxBEN model).

Tax credits from tax benefits:

- Individual Retirement Savings Plans (PPRs): 20% of amounts invested, for unmarried taxpayers or for each spouse, up to:
  - EUR 400 for taxpayers under 35;
  - EUR 350 for taxpayers over 35 and under 50;
  - EUR 300 for taxpayers over 50.
- Social Security Individual Accounts: 20% of amounts invested, for unmarried taxpayers or for each spouse, up to a limit of EUR 350.
- 25% of certain charitable donations, limited in certain cases to 15% of the donor’s tax liability.

However, the total of tax credits related to health care costs, education and training, alimony, retirement homes, VAT paid, house expenses and tax benefits cannot exceed the values of the following amounts:

<table>
<thead>
<tr>
<th>Taxable income (EUR)</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 7,091</td>
<td>No limit</td>
</tr>
<tr>
<td>Between 7,035 and 8,0640</td>
<td>\left[1000 + \left(2500 - 1000\right) \times \left(\frac{80,640 - \text{liable income}}{80,640 - 7091}\right)\right]</td>
</tr>
<tr>
<td>Over 8,0640</td>
<td>EUR 1000</td>
</tr>
</tbody>
</table>

These limits are increased by 5% for each dependent in households with three or more dependents.
Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Portugal that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Rent subsidy

During much of the twentieth century, the values of rents were not updated in Portugal. Thus, rents that have never been updated still persist, which, combined with inflation and the socioeconomic development of the country, means that rents had almost nominal values. In order to allow the gradual updating of rents, the urban rental scheme was reformed in 2006. However, in order to guarantee the financial capacity of the most vulnerable households, in particular the elderly, to continue to pay their rents after any increase in prices, it was established that rent subsidies were granted to tenants with rental contracts for housing purposes that began prior to November 18 1990, and which were, at that date, in a process of gradual updating of rental price. The rent subsidy is set equal to the difference between the actual rent, up to a maximum that varies by household size, and a base rent that depends on household income.

Porta 65 – Jovem programme

This programme supports young people aged 18-30 with their housing costs for up to 36 months. There is an income limit for eligibility, and there is a maximum amount of rent that can be supported.

Scholarships

Students aged under 18 enrolled in upper secondary school who benefit from the family allowance at the first or second income level are also entitled to a scholarship equal to the value of the family allowance.

Parental leave benefits (Proteção Social na Maternidade, Paternidade e Adoção)

Parents with registered remuneration in the compulsory social insurance scheme are entitled to receive parental leave benefits.

The parental leave scheme includes the following situations:

- Medical risk during pregnancy
- Pregnancy interruption
- Parenting
- Adoption
- Specific risks
- Child assistance in case of illness or accident
- Disabled or chronically ill child assistance
• Grandchild assistance

6 months of social security contributions are required to qualify for these benefits. The benefit amount is related to previous earnings, and is time limited in each case.

**Social parental benefits**

Parents without the necessary contribution record and in a situation of economic hardship are protected by the social parental protection scheme. The benefits give almost all parents access to a means-tested parental protection scheme independent of their working condition.

The social parental benefits include the following situations:

- Social benefit for medical risk during pregnancy
- Social benefit for pregnancy interruption
- Social parental benefit
- Social benefit for adoption
- Social benefit for specific risks

In each case, the benefit amount is linked to the IAS and the benefits are means-tested and time-limited.

**Social Benefit for Inclusion:**

This is a new social benefit in force since October 2017 intended for people over 18 years and under the normal retirement age (66 years and 4 months in 2018) with a degree of disability of 60% or more. It replaced a set of social benefits (the lifelong monthly allowance, the social invalidity pension and the invalidity pension for agricultural workers - transitional schemes) and is made up of three different components (a basic amount, a supplement and a top-up element) that will be implemented gradually. The base amount is currently EUR 3.171,84 (EUR 264,32 per month).