

Illustrative calculation of the indicator « Tax wedge on labour cost »

Portugal		1999			
The tax/benefit position of single individuals					
		Earnings (per cent of APVA)	100	167	67
		Number of children	none	none	2
1.	Gross earnings	972841	1459261	2432102	972841
2.	Standard tax allowances				
	Basic allowance	529632	529632	529632	529632
	Married or head of family				
	Dependent children				
	Deduction for social security contributions and income taxes				
	Work-related expenses	0	0	0	0
	Other				
	Total	529632	529632	529632	529632
3.	Tax credits or cash transfers included in taxable income	0	0	0	0
4.	Central government taxable income (1 - 2 + 3)	443209	929629	1902470	443209
5.	Central government income tax liability (exclusive of tax credits)	62049	132444	358117	62049
6.	Tax credits				
	Basic credit	36000	36000	36000	36000
	Married or head of family				
	Children	0	0	0	39600
	Other				
	Total	36000	36000	36000	75600
7.	Central government income tax finally paid (5-6)	26049	96444	322117	0
8.	State and local taxes	0	0	0	0
9.	Employees' compulsory social security contributions				
	Gross earnings	107012	160519	267531	107012
	Taxable income				
	Total	107012	160519	267531	107012
10.	Total payments to general government (7 + 8 + 9)	133062	259963	599648	107012
11.	Cash transfers from general government:				
	For head of family				
	For two children	0	0	0	73680
	Total	0	0	0	73680
12.	Take-home pay (1-10+11)	839779	1202298	1842453	939508
13.	Employer's compulsory social security contributions	231050	346574	577624	231050
14.	Average rates				
	Income tax	2,7%	6,6%	13,2%	0,0%
	Employees' social security contributions	11,0%	11,0%	11,0%	11,0%
	Total payments less cash transfers	13,7%	17,6%	24,2%	3,4%
	Total tax wedge including employer's social security contributions	30,2%	33,4%	38,8%	22,0%
15.	Marginal rates				
	Total payments less cash transfers: Principal earner	25,0%	26,0%	36,0%	11,0%
	Total payments less cash transfers: Spouse	n.a.	n.a.	n.a.	n.a.
	Total tax wedge: Principal earner	39,4%	40,2%	48,3%	28,1%
	Total tax wedge: Spouse	n.a.	n.a.	n.a.	n.a.

*** Tax wedge on labour cost = (Rows 7 + 8 + 9 + 13) / (Rows 1 + 13)

ie, Tax rate = (26049 + 107012 + 231050) / (972841 + 231050) = 30.2%