AGGREGATING PUBLIC PENSION

How exempt public pensions impact income tax in Portugal

CIRS - Personal Income Tax Code
Chapter II

Determination of Taxable Income

Section I - General Rules

Article 22. º - AGGREGATION

nº 4 - Ainda que não englobados para efeito da sua tributação, são sempre incluídos para efeito de determinação da taxa a aplicar aos restantes rendimentos os rendimentos isentos.

nº 4 - While not aggregated for the purpose of determining tax, exempt income must be reported to determine the final rate of

Example

To better understand, let's look at an individual who has Public Pension Income of €25,000 and a National Insurance Pension of €10,000. The Public Pension is not taxable in Portugal; the National Insurance Pension is.

However, as stated above in nº 4 of Article 22 of the CIRS, the Public Pension must be aggregated so the National Insurance Pension of

€10,000 is taxed from €25,000 to €35,000 (as a "higher rate taxpayer") as opposed to from 0 to €10,000 (as a "standard rate" taxpayer).

Because of this higher tax rate, tax is due when otherwise there would be none.

Not reporting the public pension income is not only incorrect but will likely be picked up in routine information sharing exercises that are currently in practice.

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