



JOINT OR SEPARATE DECLARATIONS

What will be the impact of the new Family Coefficient?

IRS rates are progressive and depend on the income bracket. Until the end of 2014, the sum of the couple's income was divided by two to determine the personal income tax rate, according to the respective income bracket. This was called the *Marital Coefficient*.

In 2015, if opting for joint taxation, the income tax rate continues to be determined considering the total income of the household, but the *Family Coefficient* becomes 2 plus 0.3 per dependent. If assessed individually, the taxable income of each spouse is divided by 1 plus 0.15 for each dependent. Depending on a couple's income differential, joint taxation may lead to lower IRS when compared to separate taxation (the greater the difference between partners, the higher the savings).

In 2016, the Family Coefficient was revoked and returned to the former Marital Coefficient with the difference that the tax credit for dependent children rose from €325pp child to €600pp.

Choosing what's best for you

Beyond any potential savings from a joint return, there may be other criteria that come into play. First and foremost, some couples prefer to keep their financial affairs separate. The balance between dependence and autonomy can be delicate in any relationship. Couples should find their own equilibrium point and declare as they see fit.

Also keep in mind that while separate returns may not have been an option before 2015 for a married couple, each partner has always been dealt with individually within their return, with each filing separate



annexes to report respective income. Tax credits have always been determined individually and then added together when calculating the final tax due.

Finally, reporting separately does not mean that a couple files two distinct tax returns. On the central form *Modelo 3*, you tick the box of your choice: *separate* or *joint* and attach the respective annexes. It does not mean that each partner actually files different forms.

Portugal and the EU

Finally, it should be noted that one of the main purposes behind this change is to bring Portugal in line with practices in other European countries. Portugal has stood out in the past due to the lack of a separate filing option for married couples. Respect for taxpayers' preferences is more important in creating a sound ethic of compliance than any associated minor savings or increase in tax revenues collected.

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