

## Assessing Portugal's 2025 State Budget law

### Supplementary material

The supplementary material includes an in-depth analysis of the average tax burden for young workers by age and earnings level to better understand the design of this tax deduction.

#### 1. The design of the tax deduction for young workers

The most sizable measure in the 2025 State Budget is the expansion of the tax deduction for young workers. The reform extends eligibility to individuals aged up to 35 and reduces PIT revenues by about EUR 876 million, benefiting taxpayers with up to 10 years of labour market experience.

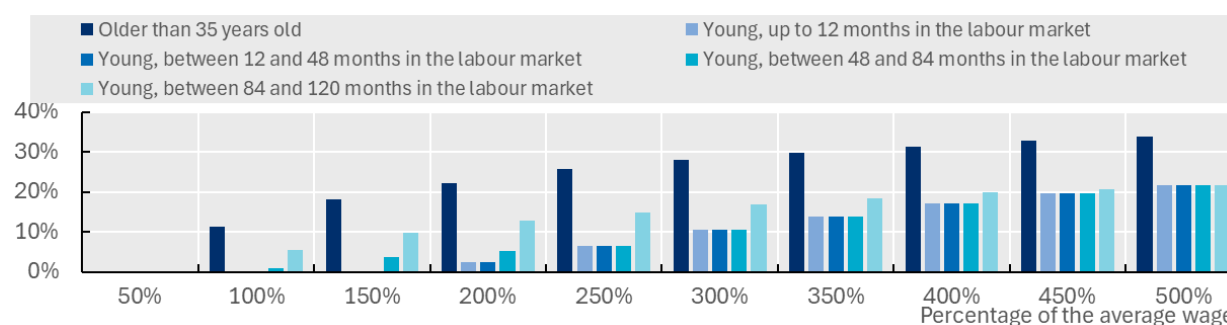
To better understand the size and design of this tax deduction, this section simulates the average tax burden of a hypothetical single individual without children, by age, earnings and labour market experience.<sup>1</sup>

Figure 1 presents the average tax burden changes across these three dimensions. In their first year of employment, young workers are fully exempted from PIT – even if they earn 1.5 times the average wage. At this wage level, the difference in tax burden compared to workers over 35 is 18 percentage points. This gap widens for higher earnings, reaching its peak around 2.5 times the average wage.

As labour market experience increase, the tax advantage narrows. For example, in the 8<sup>th</sup> year of employment, a young worker faces an average tax rate of 9.7%. Although the deduction limit remains constant with respect to the years of labour market experience, the percentage of exempted income decreases over time. This means that the deduction applies to progressively higher income levels. Even in the 8<sup>th</sup> and 10<sup>th</sup> year in the labour market, young workers earning five times the average wage still benefit from the tax deduction. Their average tax rate remains slightly below 22%, while non-eligible taxpayers in the same situation face a rate of 34%.

**Figure 1. In their first year of work, young individuals earning the average wage pay no PIT, while those over 35 pay 11%**

Average tax burden by age, labour market experience, and earnings levels for a single, childless worker.



Note: The average tax rate is the ratio between income taxes over gross incomes, including benefits. OECD calculations using the EUROMOD J1.0+ model and input data constructed using the EUROMOD Hypothetical Household Tool. Simulations are based on a scenario where only the youngsters' tax deduction was implemented on the baseline for 2025. The only source of household income are wages. Average wage is set to EUR 1943.5 monthly. Individuals pay a rent of EUR 250 monthly.

<sup>1</sup> This analysis follows the study in [Box 4 of Banco de Portugal Economic Bulletin of December 2024](#).

## Further information

The reforms described in this note were carried out as part of the 2025 Technical Support Instrument (TSI) project “Boosting the Usage of Distributional Impact Assessments through Microsimulation”, funded by the European Commission. The beneficiary authority in Portugal was the Ministry of Finance. The reforms implemented during the project implementation, including those described in this note, were for capacity building purposes only.

More information on the Portugal’s tax and benefit system is available in the [OECD Descriptions of Tax and Benefit systems](#).

How do taxes and benefits affect disposable household income, benefit replacement rates, benefit adequacy, and financial work incentives? Find it out using the [OECD tax-benefit web calculator](#).

More information on the EUROMOD microsimulation model: [here](#).

**Contact:** Sara Riscado ([Sara.Riscado@oecd.org](mailto:Sara.Riscado@oecd.org)), Daniele Pacifico ([Daniele.Pacifico@oecd.org](mailto:Daniele.Pacifico@oecd.org)) and Ella-Marie Assal ([Ella-Marie.Assal@oecd.org](mailto:Ella-Marie.Assal@oecd.org)).



Funded by  
the European Union

---

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Member countries of the OECD.

This document was produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

© OECD 2026



Attribution 4.0 International (CC BY 4.0)

This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (<https://creativecommons.org/licenses/by/4.0/>).

**Attribution** – you must cite the work.

**Translations** – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of the original work should be considered valid.*

**Adaptations** – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*

**Third-party material** – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.

You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.

Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.