



Digital Nomads: Freelancers, NHR and the Simplified Regime

The Non-Habitual Residency (NHR) programme has been successful in attracting freelancers to Portugal from around the world. While this plan offers pensioners a 10-year tax-free holiday and wealthy executives, a modest 20% flat assessment on six-figure salaries, this solution can leave much to be desired for the self-employed. In fact, a better option already exists for “gig economy” freelancers in the Simplified Regime, the standard means of assessment used by 99% of entrepreneurs in Portugal.

What is the “Simplified Regime”?

The Simplified Regime offers freelancers a simple, cost-effective alternative to the traditional profit/loss method of tax accounting. With assessment based on a fixed percentage of gross invoicing, small independent businesses can simplify record keeping, reduce taxes and increase productivity. Entrepreneurs qualify when their annual turnover does not exceed €200,000.

Example:

John recently moved to Portugal and operates a freelance business, billing clients in his home country. Last year, his invoicing totalled €75,000. As a freelancer in the Simplified Regime, he is taxed on just 35% of his income. 65% is automatically allotted to cover operating expenses. No further accounting is required. His annual tax is €5,625: just 7.5% of his gross income, far less than the 20% flat rate charges under NHR.

Other Benefits

In the first year of business in Portugal, freelancers are entitled to a 50% income tax reduction. In John’s case, his tax goes down to €2,812 on his gross income of €75,000. A reduction also extends in year two at the rate of 25% before normalising in the 3rd year and beyond.



Social Security

Embracing National Healthcare, old-age retirement pensions, disability insurance, maternity and paternity leave and unemployment benefits, Social Security contributions are both expensive and mandatory. For the self-employed individuals in the Simplified Regime, the basic contribution rate is 29.6% of taxable earnings.

Example

John pays Social Security contributions calculated on 70% of his gross income, or €52,500. That works out to less than €750 per month. The net amount is 12% of total income as opposed to that considered on the higher rate of 34.75% applicable to most Non-Habitual Residents.

Since contributions are based on the previous year's earnings, sole traders are exempt in their initial year of business.

VAT

When annual gross earnings exceed €10,000, sole traders become subject to VAT reporting in the following year. In the case of invoicing outside of Portugal, most billings are VAT exempt. Since an entrepreneur both pays VAT on necessary business expenses and potentially collects VAT from customers, an opportunity arises for ongoing tax refunds.

Conclusion

While Non-Habitual Residency can be appealing for some people in certain circumstances, the Simplified Regime usually turns out to be the more beneficial method for many freelancers. When correctly registered as self-employed, Sole Traders can meet their new tax obligations in Portugal in what most will find to be a very acceptable manner.

Overall, there are many attributes that attract people to move to



Portugal:

- Best climate worldwide (Algarve has over 300 days of sunshine per annum);
- Receptivity to foreigners: 2nd best immigrant integration in the EU;
- 3rd most peaceful country worldwide (2017 Global Peace Index);
- Security: low crime rate and only a minor threat of terrorism;
- Attractive quality of life - ranking 8th worldwide;
- Quality healthcare - ranking 12th worldwide (2017 World Health Organisation).
- No inheritance tax;
- No wealth tax.

The list goes on, also to include low taxation for entrepreneurs wishing to launch a globalised start-up enterprise in the gig economy from Portugal.

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