



IRC - SIMPLIFIED REGIME for Companies

Decree Law n° 2/2014 of 16 January, reforming taxation on companies by amending the Corporate Tax Code (IRC), provides a corporate Simplified Regime for determining the tax base.

This is an optional scheme aimed at smaller companies, whose turnover does not exceed €200,000 and total assets do not go beyond €500,000. Excluded are companies with statutory audit requirements and those with above a 20% share holding by others who, in turn, do not meet these requirements. Companies wishing to opt for this Regime should formalise their status through registration with the Tax Authority.

A major innovation of this scheme is the simplified method to determine the tax base. Thus, the IRS accepts as well the value of sales of goods and products, services or other income declared by the taxpayer and applies to them predetermined coefficients to establish the tax base used to determine the final rate of tax.

IRC - <i>Simplified Regime</i>	taxable base
Sales of goods and products; Services of the hotel business, catering and beverages: *	2% in year 1; 3% in year 2; 4% in year 3 and beyond
Income of professional activities *	75%
Income from subsidies not related with operations	30%
Income from Local Lodging	35%
Income derived from remaining services and subsidies for operation *	10% 5% in year 1; 7.5% in year 2



Income derived from royalties; capital income attributed to income-generating activities in Category B, positive result of property income, positive difference between capital gains and losses and other assets;	95%
Acquisition value of net worth increases obtained for free.	100%

- * Coefficients applicable to sales and services are reduced by 50% and 25% in the first and second periods after the start of the business activity

However, the value of the tax base in the Simplified Regime cannot be less than 60% of the national guaranteed minimum income.

To attract taxpayers to join this scheme, the Ministry of Finance added two relevant benefits:

- 1) Special dispensation from “PEC” (Special Payment on Account);
- 2) Immunity from autonomous tax for representation expenses, the cost of compensation and vehicle operating expenses.

Nevertheless, the disadvantages of joining the system must also be taken into account:

- 1) Taxable persons are not exempt from keeping proper accounting records. Simplification is only for tax purposes. It will not cut paperwork nor reduce the retainer payable to chartered accountants (TOC) as occurs with IRS;
- 2) Taxpayers who join the scheme lose their right to recover refunds on Special Payments on Account (“PEC”) to which they might possibly be entitled;
- 3) Taxable persons face a minimum taxable income, which corresponds to a required minimum tax, regardless of making a profit or loss during the period.