



euroFINESCOs.a.

eBook nº 2

FREELANCERS IN PORTUGAL

by

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PORTUGAL

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At **euroFINESCO**, we take pride in being a frontrunner in fiscal and expatriate services in Portugal, playing a leading role in interpreting Portuguese fiscal legislation as plain English for the foreign resident community since 1991.

PORTUGUESE TAXATION

- *IRS* - Individual Income Tax Returns
- *IRC* - Income Tax Preparation for Portuguese Nominee Companies as well as Non-Resident Companies
- Fiscal Residency Transitions to Portugal
- Fiscal Representation for Non-Residents

INTERNATIONAL TAX ISSUES

- Bilateral Tax Treaties
- Jurisdiction Conflict Resolution
- Compliance Issues

PERSONAL TAX PREPARATION

The Portuguese tax system offers surprising opportunities to the foreign resident. When properly prepared, Portugal can prove to be a “tax haven within Europe” for you.

PORTUGUESE “*IRS*” INCOME TAX RETURNS

FINESCO specializes in helping foreign residents by preparing their annual Portuguese *IRS* Income Tax Returns.

NOMINEE COMPANIES FOR PORTUGUESE PROPERTY

- Meeting basic compulsory compliance commitments;
- Liaison between *Finanças* and Company Owners.
- Resourcing information to Owners;

FISCAL REPRESENTATION

- Protecting your Valuable Investment
- Meeting Compliance Requirements
- Resourcing Key Information
- Liaison with *Finanças*
- Personalised Service
- Payment Facility
- Plain English

DOCUMENTATION

We can assist you by cutting through the bureaucracy:

- “*Residências*”
- Portuguese Wills
- Rates Exemptions
- Non-Habitual Residency
- Fiscal Numbers
- Medical Cards

SMALL BUSINESS FORMATION

We can help expatriates launch new businesses in Portugal:

- Choosing the right structure
- Accountancy Services
- Social Security & VAT

CROSS BORDER ESTATE PLANNING

We can provide you with the following comprehensive Estate Planning services:

- ANALYSIS
- EVALUATION
- IMPLEMENTATION



INTRODUCTION

The Sole Trader Start-up Plan

Portugal's appeal

Overall, there are many attributes that attract people to choose Portugal as their new home:

- One of the best climates in the world (Algarve averages 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 in 2017 according to World Health Organisation.
- No Inheritance Tax;
- No Wealth Tax.

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

Freelancing from Portugal

Many foreign residents plan to open a small business when they move to Portugal. Some want a fresh start in a new field; others wish to continue what they were doing before. Regardless of your interest or motivation, it is essential that you understand the basic requirements in Portugal for launching and conducting your new business activity.

It is always important to begin according to prescribed procedures, particularly in a country with a strong bureaucratic tradition such as Portugal. Many newly-arrived residents expect things to work as they did at “home”. Needless to say, this is a precarious and most often mistaken assumption.

While it would be equally wrong to expect everything to be different, it might be best to visualise two overlapping circles, with parts that coincide, and others that don’t. Although we may tend to focus on similarities or differences, the key to understanding the circles is that each is an independent system and needs to be understood in its own right.



nº 1: CHOOSING A STRUCTURE *as a Freelancer or a Company?*

When starting a business in Portugal, there are a number of steps you will need to take before beginning. First and foremost, you'll need that "better mouse trap" idea, the brilliant concept that might make you the next Bill Gates. However, if your business is to be truly successful, you will need to follow the laws of the land. This begins with choosing what form of company to create. You have three basic choices: *Empresário em Nome Individual* (self-employed or "Freelancer"), *Companhia Limitada* (limited company, either in one name or as a partnership) or *Sociedade Anónima* (Corporation).

Most people find that the *Empresário em Nome Individual* status is the cheapest and easiest way to begin. Why go through all the work and expense of forming a proper company when you don't even know yet whether the world will come to your doorstep? Your business can be simply registered at the local *Finanças* office, no social capital is required to be deposited with a bank, no company bylaws need to be recorded. Thus, formation costs are minimal and until the business grows substantially, only the simplest of bookkeeping requirements need to be followed. Most such entrepreneurs will fall into the Simplified Regime. As we will see, this accounting tax regime usually lives up to its name and most people find it both easy and advantageous. At tax time, a simple annex is all that is required to supplement your regular "IRS" individual income tax return.

However, all is not so simple. You still have to sign up with Social Security, although you will be exempt from payments (as well as benefits) in your first year of operation. Value Added Tax ("*IVA*") must be filed and paid quarterly in most cases once gross taxable income exceeds €10,000.

More importantly, you have full personal liability for your business. This may be acceptable in activities where debt load is low and the likelihood of court action slim.

For other business areas, a *Companhia Limitada* with a fixed liability, limiting your responsibility to the social capital of €5,000 in most cases, is desirable. As a proper company, you will need a certified accountant (“C.C.”) to file your IRC tax returns and a portion of your profits needs to be set aside to create a reserve. Of special importance in many business activities, a full-fledged company structure gives your business a standing that may be necessary to compete in your business environment.

The last option is the *Sociedade Anónima* (a Corporation). This choice is necessary for larger businesses and for certain regulated activities. Establishment costs are significantly higher, starting with social capital of €50,000. Other costs are also in proportion. Unless you are setting up a Portuguese branch of an existing corporation, this is unlikely to be where you will want to begin although, with luck and a bit of effort, you may grow into this solution.

Returning to the premise that the best place to start is as an *Empresário em Nome Individual*, professional advice is a must when starting a new venture. Not only is it important to make the right choice, you will want to avoid as many pitfalls as possible, common to start-up businesses. In this eBook, we will cover the basic compliance measures that you need to sort out in getting your business off the ground. With a sound concept, the right steps and hard work, success will be just around the corner.



nº 2: OVERVIEW OF REQUIREMENTS

Prerequisites of running a Business

Before you are permitted to start your independent business in Portugal, you must first register your activity. This is done either through the completion of an *Início de Actividade* form, directly at your local *Finanças* office or via the Internet. You will also need to register at the local Social Security office.

Running your Business

Freelancers are required to invoice their clients. “*Recibos Verdes Electrónicos*” (Electronic Green Receipts) are the required method in most cases. The paper version (called “*Recibos Verdes*” - Green Receipts - have been withdrawn. This online billing method is done in triplicate: one copy for you, another to the client and the third to the Portuguese Tax Authority. Invoices should be issued within five days of performing the service.

Closing your Business

In order to avoid any unnecessary assessment, you must notify *Finanças* within 30 days when you cease your business activity via the completion of a “*Cessação de Actividade*” form. For Social Security, fill out the “*Boletim de Alterações de Elementos*” form.

Income Tax (“IRS”)

Income tax returns are to be submitted on line in April/May following each fiscal year (January - December). In addition to *Modelo 3*, Freelancers complete *Anexo B* - Income from Independent Work. This annex is for declaring both income as recorded in the business’ books as well as all necessary expenses for conducting the business.

Valued Added Tax (“IVA”)

If your income exceeds €10,000, you will be included in the VAT regime in the following year. The percentage you charge your clients depends on the nature of your business activity. On a quarterly basis, you report the VAT that you collected as well as the tax you paid on your business expenses and report the balance. If in favour of the State, you send the difference to Finanças. If you paid more than you received, you will be entitled to a refund.

Payments on Account

Once your business has settled into a more predictable routine, you will need to pay your estimated taxes in instalments rather than as one lump sum at the end of the tax year. These Payments on Account start in the third year of operation and are made in June, August and November with the final balance settled through the annual Income Tax declaration (“IRS”).

Social Security

Monthly Social Security contributions normally begin the second year of business activity unless an exemption applies. Deductions are according to the amount of income actually received, based on IRS declarations in the preceding year. Workers will automatically be placed into a deduction category by Social Security. The same Simplified Regime percentages still apply with 35% or 75% of income for services and 15% of Sales serving as the contributory base. Most types of freelance businesses make Social Security contributions at the rate of 29.6% (21.4% as of 2019).



nº 3: THE SIMPLIFIED REGIME *a programme that lives up to its name*

The Simplified Regime, established in 2001, has had massive adherence by freelancers over the years. At the same time, it has failed miserably with companies taxed under IRC. Currently, 99% of Freelancers pay their IRS through this scheme, while for companies, only 15,000 out of 160,000 joined this system.

The Simplified Regime has offered Freelancers a simple, cost-effective alternative to traditional profit/loss methods of accounting. With assessment based on a fixed percentage of gross invoicing, small independent businesses simplify record keeping, reduce taxes and increase productivity. Individual entrepreneurs whose annual turnover does not exceed €200,000 qualify for the Simplified Regime.

Income under the Simplified Regime will be added to other sources of revenue from other categories for determining overall taxation. This regime must be continued for a minimum of 3 fiscal years.

Filing your Income Tax Return

Having declared your business activity, it will be time to settle up with the taxman after completing your first year. The fiscal year in Portugal corresponds to the calendar year. Business activity falls into Category B and is reported on “*Anexo B*” in the filing period in April/May.

On “*Anexo B*” of the IRS Individual Income Tax Return, you report your fiscal number, business activity code, and the total amount of invoiced income. *Finanças* will add the net to other sources of income, such as pensions, interest, etc. For Residents, tax is calculated on your total income at marginal rates (14.5% - 48%). Non-Resident are assessed at a flat rate of 25%. Although expenses do not normally enter into these calculations, you may need to keep records of your expenses for reporting Value Added Tax (IVA”).

Starting in the third year of operation, you will need to pay your estimated taxes in instalments. These Payments on Account are made in July, September and November with the final balance settled through the annual Income Tax declaration (“IRS”).

As the following chart illustrates, the Simplified Regime is not quite so simple any more. Formerly with just two categories, the scheme has recently expanded to six. Under this method of assessment, taxpayers do not deduct professional and business expenses against their annual income with the exception of rental income which is reported net. Instead, taxable income is computed by applying the following coefficients to gross turnover:

Category B: Expanded Simplified Regime	Base
Sales of goods and services;	15%
Liberal Profession business activities (<i>profissões liberais</i>)	75%
Other income from services; Activities related to tourism	35%
Royalties, know-how, other income in connection with activity; Rental income not declared in Category F.	95%
Non-business related subsidies	30%
Business related subsidies; sources of income not listed	10%
Income taxed under Fiscal Transparency	100%

Clearly, a major innovation is in the sector of *Service Activities* with the distinction for “*Other Activities in Category B*”. Unlike professional services (*profissões liberais*) that remain with an exclusion limited to 25% – professions usually requiring advanced degree qualifications as opposed to support services and vocational careers in non-academic skills and technical trades, *vocational*

services are allowed to exclude 65% of their invoiced income. This means that final taxable income is just 35% of gross turnover taxed at marginal rates.

For example, a *Property Manager* who coordinates diverse support services for *Property Owners* now qualifies for this 65% exclusion on their invoiced fees. A gross €30,000 annual income would pay less than €725 in “*IRS*”. Compared to previous practices, the same income, when reported as undistinguished *service income* in former years would have paid over €6,300 in tax, based on the then prevailing 75% coefficient.

Those in *Sales* also enjoy a reduction with taxable income fixed at 15%. Taxation on €20,000 falls to €220, just over 1% of total turnover. Non-residents are levied a flat rate of tax of 25% (3.75% of turnover).

Many will applaud these modifications. Not just because they will pay less tax but, equally important, these measures promote *growth* and reward *compliance*, fundamental values at the heart of any sustainable tax system. There is probably no faster or better way to promote employment. *Entrepreneurial spirit* is fostered, *self-reliance* encouraged, two more essential values at the heart of any healthy economy.

“Holiday Lets” as a Tourist Business

If you are engaged in tourist services, these may be eligible to receive special treatment under the Simplified Regime. If you let out furnished accommodations to holiday makers on a short term basis, this type of activity is taxed on 35% of invoiced income. This equates to an effective tax rate of less than 9% on gross income for non-residents versus the existing 28% rate for long-term rental income. Residents aggregate with other forms of declared income.

Equally important for non-residents, according to Double Taxation Treaties throughout the EU, there should be no further assessment in your home jurisdiction as this income should be exclusively taxable in Portugal.

Selling Electricity to EDP

If you have solar panels or a wind turbine and sell to the grid, you must report this as a business activity as a sole trader. The good news is that the first €5,000 of income is exempt for assessment. The bad news is that reporting requirements still exist. The activity must be opened and tax returns filed on an annual basis. **euroFINESCO** has a special package to suit those with this particular need.

Starting in 2019, a Sole Trader with business activity earnings from renewable energy production will be exempt from Social Security contributions. Under the current system, individuals who have opened a business must begin making payments to Social Security when their first year waiver is over unless they are already contribute or receive benefits from another Social Security system.



nº 4: STANDARD ACCOUNTING

Common bookkeeping practices

Standard Accounting

Standard accounting is mandatory in the following cases:

- a) All companies, such as limited liability companies or corporations (“*Sociedades Anónimas*”). This option is usually more advantageous when business operating expenses are significant;
- b) For all professionals and entrepreneurs who have a net annual income of more than €200,000.

Freelance professionals and entrepreneurs whose income does not exceed €200 000 per year can opt for Standard Accounting or, if they prefer, the Simplified Regime. In fact, 99% choose the Simplified Regime.

One important aspect of Standard Accounting is that you are required to appoint a certified accountant, “Contabilista Certificado” or “C.C.”. Needless to say, this area of accounting practice is a highly regulated field and well beyond the scope of this brief introduction to running a business in Portugal. If you go down this route, your “C.C.” will be there to guide you along the way and explain what steps that you must complete to be fully compliant with the requirements.

To help give you a broad idea of what might be expected, the following table outlines the principal expenses that can be deducted and some of the limitations. Your “C.C.” should clarify any doubts that arise.

STANDARD ACCOUNTING

Deductible Expenses

Deductible Expenses	Example	Limits
Salaries & Expenses for employees	<i>wages to employees</i>	without limit except automobile expenses which are only 50% deductible
Rent for installations & equipment	<i>office or car rentals</i>	
Depreciation: installations & equipment	<i>depreciation of computers</i>	
Social Security contributions	<i>payments to Social Security</i>	
Dues for Professional organizations/ unions	<i>union dues</i>	
Advance payments	<i>advances</i>	
Leasing payments	<i>car lease</i>	
Business Insurance	<i>car insurance</i>	without limit except automobile expenses which are only 50% deductible (car repairs are fully deductible) (total expenses cannot exceed 25% of gross income in Category B)
Utility expenses	<i>water & electricity</i>	
Communications	<i>Phone & fax</i>	
Business consumables	<i>office supplies</i>	
Employee travel expenses	<i>taxis</i>	
Payment for services	<i>computer repair</i>	
Professional training	<i>training course</i>	
Other expenses	<i>stamp duty</i>	
Travel expenses	<i>hotels or petrol bills</i>	



n° 5: DIGITAL NOMADS

NHR and the Simplified Regime

The Non-Habitual Residency (NHR) programme has been successful in attracting freelancers to Portugal from around the world. While NHR 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 freelancers. In fact, a better option already exists for “*gig economy*” freelancers in the Simplified Regime, the standard means of assessment used by the vast majority of entrepreneurs in Portugal.

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. Up to 65% is allotted to cover operating expenses. No further accounting is required. His annual tax is €7,160: just 9.5% of 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% exclusion on their income tax. 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 & paternity leave and unemployment benefits, Social Security contributions are both expensive and mandatory. For freelancer individuals in the Simplified Regime, the basic contribution rate is 29.6% of taxable earnings, reducing to 21.4% in 2019 and beyond.

Since contributions are based on the previous year's earnings, Freelancers are exempt in their initial year of business. Monthly payments only begin in the 13th month of business activity.

VAT

When annual gross earnings exceed €10,000, Freelancers 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 on-going tax refunds.

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 most freelancers. When correctly registered as self-employed, Freelancers can meet their new tax obligations in Portugal in what most will find to be a very acceptable manner.

Taxation of Freelancers

Under current legislation, when qualifying for 65% exemption under the Simplified Regime, Freelancers pay substantially less tax as compared to those under the Non-Habitual Residence programme. Starting at $\pm 5\%$ on an annual income of €5,000, Personal Income Tax (“IRS”) climbs gradually to just over 13% on €200,000. Social Security contributions work inversely, representing $\leq 20\%$ of total freelancer income, eventually dropping to just $5\frac{1}{2}\%$ on the maximum permitted earnings.

This assessment contrasts with tax treatment under the Non-Habitual Resident Regime where “IRS” is levied at the autonomous rate of 20%. Social Security is taxed at 29.4% with the possibility for adjustments. NHR individuals can pay substantially more tax, totalling almost 50% of gross earnings. This assessment compares with the composite progressive levy under the Simplified Regime of 25 to 33% on total gross earnings.

New SS Contribution Scheme in 2019

Under the 2019 Social Security Reform, contributions will decrease from 29.6% to 21.4%. Based on 70% of the product, Freelancers in services will have a net rate of 15%. With a corresponding coefficient of 20%, Sole Traders in production, sales and tourism will have an effective Social Security contribution rate of 4.28%. The former progressive income steps that allowed for subsequent adjustments disappear.

In all cases, the computations derive from the average income of the previous three months rather than the previous year. Furthermore, Independent Workers will have the flexibility to adjust further their payments up or down by as much as 25%, to take into consideration on-going fluctuations of earnings.

Independent workers must also make an Annual Declaration by 15 February, reporting the value of services provided in the fiscal year from each contractor.

Partial and Total Exemptions

50% of “IRS” is exempt in year one, reducing to 25% in year 2 before levelling out in the third year of business activity and beyond. There is full exemption from Social Security until the 13th month or when contributing to or receiving benefits from another National Insurance system.

Starting in 2019, a Sole Trader whose only income results from a Local Lodging activity will be exempt from Social Security contributions. Under the current system, individuals who have opened an “AL” business must begin making payments to Social Security when their first year waiver is over unless they are already contribute or receive benefits from another Social Security system.



nº 6: LOCAL LODGING

Holiday Lets as a Business

If you let out furnished accommodations to holidaymakers on a short-term basis, you are engaged in tourist related services (Category B) and should have already registered for Local Lodging. This type of business activity receives special treatment under the “Simplified Regime”. You are taxable on only 35% of your invoiced turnover.

Before You Start

Before you start your independent business activity in Portugal, you must first register with the Portuguese Tax Authority. This can be done a) over the Internet, b) on paper or c) directly at your local *Finanças* office.

You will also need to register with Social Security. Contributions only begin in the 13th month of your activity. Those receiving an Old Age Pension or contributing to a Social Security system anywhere within the EU can apply for exemption from contributions.

New requirements regarding energy efficiency certification for new, renovated and existing properties came into effect in 2013. Any building sold or rented must have an Energy Efficiency Certificate. The cost of the Certificate is modest and has a validity of 10 years. As in other requirements related to Local Lodging, *compliance* is key for those exercising this activity. Failure to meet the above norms is subject to severe penalties.

Letting to Holidaymakers

Non-Residents normally report income both in Portugal as well as in their home jurisdiction. Regardless of where you are paid and in what currency, your primary responsibility is to report the activity in Portugal because 1) this is where the activity (tourism) takes place and 2) where the property to be commercialised is located. Double taxation is normally eliminated via international tax credits.

Electronic Green Receipts

As in all business activities in Portugal, you are required to issue invoices to your clients. Because these invoices are done electronically via the Internet, the Tax Authorities keep an on-going record of your Local Lodging income.

“SEF” reporting

Just as happens in hotels, operators of Local Lodging are required to report the arrival and departure of foreign guests within 3 days. The necessary identity information for each individual must be shared with the *Serviço de Estrangeiros e Fronteiras* (Foreigner and Border Service).

Portuguese Income Tax

An “IRS” declaration must be filed in April-May following the fiscal year. Most find the Simplified Regime to be both simple and economical when compared to standard accounting practices. Under current legislation, up to 65% of Local Lodging income may be excluded to account for operating expenses that no longer need to be reported. This equates to an effective tax rate of $8\frac{3}{4}\%$ on your invoiced income.

Social Security exemption for “AL”

Starting in 2019, a Sole Trader whose only income results from a Local Lodging activity will be exempt from Social Security contributions. The same practice applies to those with earnings from renewable energy production.



Currently there are ±800,000 *Freelancers* registered in Portugal. Being your own boss has its advantages. However, you need to pay careful attention since the contributions and tax payments are made by you rather than by a company.

In recent years, the self-employed have gained more and more rights. Nowadays, as occurs with salaried employees, these workers have gained entitlement to protection in many situations, such as parenting, illness or unemployment. But to be eligible for these social benefits, you need to have your Social Security contributions up-to-date.

Maternity / Paternity Leave

Freelancers are entitled to a parental leave when they have children. This is an amount paid in cash to the parent at the time they are on leave for child birth and is intended to replace lost employment income. It may be granted either for 120 or 150 days, depending on parent's choice.

To be entitled to this benefit, Social Security payments must be up-to-date until the end of the month preceding maternity/paternity leave. Note that if you have contributions in arrears, the grant will be suspended. The beneficiary regains the right to the grant once the contributory situation has been rectified.

The amount you receive depends on the time framework that parents chose. For example, if the mother decides to stay home with the baby for 120 days, she will receive 100% of the reference pay. If she chooses 150 days, she will receive 80%.

To determine the reference wage, social security takes account all the earnings stated in the first six of the prior eight months. For example, for a mother entering maternity leave in November, she will receive grants based on her average earning in the period from March to August.

- **Allowance for clinical risk during pregnancy**

If a pregnancy is at risk, the Freelancer is also entitled to a subsidy for risks during pregnancy - support in situations where there is the existence of clinical risk, for mother or for the baby. To be eligible for this grant, a medical declaration is required, indicating the time considered necessary to avoid the risk. Again, the employee needs to have payments to Social Security up-to-date. In these cases, the worker receives 100% of the reference wage. If this is too low, the law establishes a minimum of €11.18 per day.

- **Other support in parenting**

Self-employed workers are also entitled to other forms of parental support from Social Security, such as the allowance for termination of pregnancy, the extended parental allowance, allowance for adoption and allowance for care or chronic illness. However, they do not qualify for a subsidy for child and grandchild assistance.

- **Right to sick pay**

Self-employed workers are also entitled to sickness benefits. However, there are some peculiarities. The initial payment of sick pay is subject to a waiting period of 30 days. The maximum period of sick pay is one year.

Note also that in the first month of illness, the self-employed have to pay the respective contributions and when they return, are also required to pay the contributions due on the number of days worked in the month.

- **Right to unemployment benefits**

The right to unemployment benefit is one of the greatest achievements that independent workers have achieved in recent years. However, you can only access this provision, known as Activity Cessation Allowance, if you are considered economically dependent on a company, that is, if 80% of the total amount of annual income comes from a single business entity.

Apart from this condition you must be registered in the Employment Centre. There must be an involuntary termination of the contract with the company and you have been working via green receipts (in the manner explained above) over 720 days (two years) in the four years before termination of collaboration with the company.

- **Exemption from contributions**

The self-employed are required to pay contributions for social security from the moment where they become part of the body of an organisation. However, in certain situations, they may be exempt from paying these taxes. You may be entitled to exemption when accumulating independent activity to dependent work, when working for others puts the Freelancer into another social protection system, or if the annual income is equal to or less than €5,146.80 [12 times the IAS (€428.90)]

- **Right to an old-age pension**

Those working on green receipts may also have access to a retirement pension. To be eligible for an old age pension, you must be aged 66 years and 4 months and have discounted for at least 15 years for Social Security. The amount you will receive depends on several factors, including how old are you when applying for retirement. It should be noted that independent workers who retire early may continue to perform any activity without restrictions.

- **Right to a disability pension**

In the event of permanent incapacity for work, the self-employed are also entitled to protection from disability (relative or absolute). To receive this grant, you must have contributed to Social Security for at least 5 years in the case of “relative” disability, and at least 3 years in the event of “absolute” disability.

- **Right to family protection in case of death**

On the death of the Freelancer, the family may be entitled to benefits, such as funeral allowance, reimbursement of funeral expenses, orphan's pension, widows, survival or death grant. To be eligible for death benefits, there is no minimum contribution period.



If you are a *salaried worker* (Category A) but do a *self-employed* job (Category B) on a one-off basis, you do not have to open business activity with *Finanças*. The Isolated Act is a mechanism that can only be used if the service that you are carrying out is not an on-going activity. Additionally, you may do only one *Isolated Act* per each tax year. If you are thinking about using this option, here are a few factors to take into consideration.

Issuing an Isolated Act

To issue an invoice for an *Isolated Act*, you will have to do so through the *Finanças* website, just as you would for *Electronic Green Receipts*. As usual, you need to use your password to gain access to your page. Once there, you will have access to the *issue receipts* area where some data should already be filled in. If you notice anything wrong, make the appropriate corrections. You will have to identify your customer through his/her fiscal number (“*NIF*”), identify the services provided and the amount received. Also you will have to identify the VAT due and any withholding tax. Do not forget to mention the reason for payment - *Isolated Act* - and print your receipt in duplicate. Remember, you should not withhold tax on income resulting from a commercial, industrial or agricultural activity.

Paying VAT

When issuing the invoice for an *Isolated Act*, you will have to charge VAT on the amount agreed for the service. You should inform your client that you will declare the service as an *Isolated Act*. Find out if the service rendered is covered under Article 9 of the VAT Code, in which case it will be exempt from paying this tax.

VAT is payable by the last day of the month following the conclusion of the service, either at your local tax office or via a “*Multibanco*” machine when paying through the *Finanças* website.

VAT rate to be used

When providing services, you must retain VAT at the rate of 11.5% if the amount received through the *Isolated Act* exceeds €10,000. If you choose to retain VAT on your own initiative, you will be subject to *estimated tax* two years later.

Completing your IRS declaration

Taxpayers who provide an *Isolated Act* will not be required to submit a tax return and are exempt from income tax if total annual income does not exceed €1,715.60. This corresponds to four times the “IAS” (Social Support Index) currently set at €428.90 per month. This measure is part of the IRS reform that seeks to promote the integration of young people into the labour market, who are often called upon to perform odd jobs.



n° 9: CONTRIBUTORY CODE FOR SOCIAL SECURITY *Portuguese National Insurance*

The Contributory Code for Social Security was overhauled for independent workers in 2011 and again in 2018.

Freelancers no longer choose their level of contributions as they once did. Instead, they make deductions according to the amount of income actually received, based on IRS declarations in the preceding year. As of 2019, this period will be the previous three months. Upon registration of the business activity, workers are automatically be placed into a deduction category by Social Security.

Contributions drop

Under the 2019 regime, Social Security contributions will decrease from 29.6% to 21.4%. Based on 70% of the product, Freelancers in services will have a net rate of 15%. With a corresponding coefficient of 20%, Sole Traders in production, sales and tourism will have an effective contribution of 4.28%. In all cases, the computations derive from the average income of the previous three months. Furthermore, Independent Workers will have the flexibility to adjust further their payments up or down by as much as 25%, to take into consideration on-going earnings fluctuations. Independent workers must make an Annual Declaration by 15 February, reporting the value of services provided in the fiscal year from each contractor.

Enhanced Benefits

Freelancers covered by compulsory protection scheme, are given protection in case of maternity, paternity and adoption (protection in parenting), occupational diseases, invalidity, old age and death as well as the right to health protection.

Under the Simplified Regime (IRS), you cannot deduct either business expenses or Social Security unless you choose to move on to standard accounting or a Limited Liability Company.

Simplified Regime rule changes

Sole Trader service providers – in particular, local lodging - will have to be vigilant because of the new rules. Fortunately, the coefficients currently available – 25%/75% for liberal professions or 65%/35% for all other service providers (including *Local Lodging*) – continue unchanged from before.

Sole Traders now have a specific deduction of €4,104, identical to salaried workers and pensioners. The introduction of the allowance means that only Freelancers with incomes over €27,360 per year (\pm €2,250 per month) need to justify a part of their expenditures to obtain the maximum allowable deduction. The presumption of automatic deductions underlying the Simplified Regime will be limited by a justification of 15% of qualifying expenditures. This outlay becomes dependent on recorded 'e-invoices'. Independent Workers who need to justify their disbursements should do so at the e-invoice portal. Spending for transportation, fuel, office rental, energy and telecommunications charges, among others, are allowed. There will also be a field that will indicate which expenses are professional, personal or both. When expenditures are considered mixed, 25% is automatically deemed as a partial business outlay.

In addition, in order to encourage better and more stable labour relations, the concept of sharing Social Security contributions is introduced for the first time. Freelancers get the protection of Social Security and those engaging them are obliged to pay Social Security contributions of 10% calculated on 70% of the amount

paid for each piece of work done for them if 80% of income is earned from a single entity.

In the case of Freelancers the lower earnings limit for the payment of contributions is reduced from 1.5 times the statutory minimum income (*Indexante de Apoios Sociais*) to the statutory minimum income. However the basis of assessment is now fixed according to the current level of income, according to the following table.

Category B <i>Expanded Simplified Regime</i>	Base
Sales of goods and services	15%
Liberal Profession business activities (<i>profissões liberais</i>)	75%
Other income from services (<i>including Local Lodging</i>)	35%
Royalties, know-how, other income in connection with activity; Rental income not declared in Category F.	95%
Non-business related subsidies	30%
Business related subsidies; sources of income not listed	10%
Income taxed under Fiscal Transparency	100%

The upper earnings limit for the assessment of contributions remains at 12 times the statutory minimum income.

Freelancers continue to be exempt from Social Security contributions when they combine employment with self-employed work, as long as all the following conditions are satisfied:

- The freelance work is provided to different companies which are not under the same control or in the same group;
- Work done must lead to being social security benefits covering all eventualities normally covered by the system for Freelancers;

- The amount of annual remuneration for the purposes of the other social benefit system must be equal to or more than 12 times the statutory minimum income.

Minimum deduction

Self-employed individuals must declare their income to Social Security each quarter. The 2019 regime creates a minimum monthly contribution of €20 to guarantee stability and continuity over the course of one's contributory career to assure future pension entitlements as well as other social benefits associated with occurrences of unemployment or illness.

Combining employment with freelancing

Freelancers who accumulate salaried work will be exempt when average monthly income (relative to the previous quarter) does not exceed the value of 4 X IAS (Social Support Index) or ±€1,715.60. Before there was no such limit. Accumulated income from dependent work deriving from self employment could be automatically exempt from contributions on their Sole Trader earnings.

Social Security

The Portuguese Solidarity and Social Security system guarantees the right for all to Social Security. It is composed of three sub-systems: social protection of citizens, social protection of the family and the welfare sub-system.

Freelancers are exempt from contributions in their first 12 months of business activity. This exemption does not apply if you were previously registered or are reopening an activity.

If income fails to exceed 6 times the National Minimum Wage (IAS) (€2 573.40 in 2018), the Sole Trader is eligible for dispensation from Social Security contributions. Current recipients of Social Security benefits (ie. Old age pensioners), either in Portugal or in another EU country, may also apply for dispensation from contributions.

European Union

There are some common rules that apply in all European countries offering solutions to most cross-border problems that may arise. They do not standardise the different national systems, or replace them with a “single European scheme”. Every country is free to determine the details of its own Social Security system, including what benefits can be provided, to whom and how much they will be. The only requirement is that they must adhere to the basic principle of equal treatment regardless of nationality.

These rules apply in particular to EU nationals in their capacity as employed and self-employed persons, civil servants, students or pensioners who are moving within the EU, as well as to their family members, or survivors, even if they do not have EU nationality.

Since 2003, third-country nationals and their family members and survivors have also been covered by these rules, provided they are legally resident in the territory of an EU Member State and are in a cross-border situation - a situation which concerns not only one Member State, such as a citizen who is working in one member state and whose children are studying in another.

Social Security Rights When Moving Abroad

Once you start a job in another country, you will enjoy the right of equal treatment regardless of nationality. Another principle is that you are subject to the legislation of only one country. This is to avoid a situation where you pay Social Security contributions in more than one country or you are not insured in any country. You will be insured in the country where you work.

There is an exception to this rule: posting abroad. Posting means that an employer sends you temporarily to another country. You will then stay insured under the legislation of the “old” country whilst being posted in the “new” country.

For certain categories of persons, different rules may apply.

EU Health Card

Social Security beneficiaries may now obtain a European Health Card that will guarantee medical care in the event of unexpected illness while travelling in anywhere in the European Union. EU nationals who are residents in Portugal and receiving a Social Insurance payment or paying Social Insurance in another EU country, or are a dependant of such a person, should apply through the Social Security Department of the country of origin.

International Treaties

Portugal has Social Security Agreements that secure the rights of beneficiaries throughout the European Union as well as the following countries:

Andorra	Channel Islands (UK)
Argentina	Chile
Australia	Morocco
Brazil	Switzerland
Cape Verde	United States of America
Canada	Uruguay
Quebec (Canada)	Venezuela

Social Security on the Internet

You may obtain further information at the Portuguese Social Security website:

<http://www.seg-social.pt>



n° 10: VAT AND FREELANCERS

Requirements for Value Added Tax

As is the norm throughout the European Union, all business transactions are potentially subject to Value Added Tax (“*IVA*”). The keys points relevant to Freelancers in Portugal are:

Taxable entities

- Individuals exercising a business activity producing, trading or supplying services on a continuous and independent basis;
- Those who independently carry out a single taxable transaction, provided that such transaction is in connection with a business activity, wherever it takes place.

Taxable transactions

- the supply of goods;
- the supply of services;
- importation of goods from outside the European Community;
- some transactions between members of the EU.

Exemptions

When annual turnover does not exceed €10,000, the Freelancer is exempt from collecting and reporting VAT.

Rates

- In Continental Portugal, VAT rates are 6%, 13% and 23%;
- In the Azores, the rates are 5%, 10% and 18%.
- In Madeira, VAT rates are 5%, 12% and 22%.

Deductions

Right to tax deduction

The *tax liability* is the difference between the amount of tax collected from customers and the amount paid in the course of necessary business expenditures in the same period.

Payment

After the deductions and assessment of tax payable, payment is made to the Tax Authority by cheque, postal order or bank transfer by the 15th day of the second month following the quarter to which the transactions relate.

The same rules apply to intra-Community activities. VAT is paid together with the transactions for the period.

TAXPAYERS' OBLIGATIONS

Declarative obligations

A taxable entity is required to declare the start and close of business activity as well as notify any changes within 30 days. These declarations are lodged with the local tax office.

Obligation to issue an invoice

It is mandatory to issue *invoices* no later than five working days following the taxable event.

In addition to numbering and dating, invoices must include the name, business name, the head-office or domicile of the vendor and the purchaser, as well as their respective fiscal identification numbers. This fiscal identification number as shown on an invoice issued to a taxable person of another Member State should be preceded by the prefix PT; the detailed statement of goods or the nature of the services rendered; the price net of VAT, the applicable rate and the amount of VAT due; the justification for non-application of tax, where appropriate.

Filing over the Internet

It is mandatory for all IVA declarations to be submitted via the Internet. Consult the following website:

<http://info.portaldasfinancas.gov.pt/pt/dgci/>



nº11: RESIDENCY VISAS FOR FREELANCERS

The application for a Residence Visa for non-EU nationals to exercise an independent business activity is normally issued to the applicant in his country of residence through the Portuguese Embassy or Consulate. Once application has been made, the deadline for the decision is usually 60 days, starting from the day of submission of the application with all substantiating documentation. This period may vary depending on your country of origin.

Alternatively, if approval is pending, applicants may enter Portugal with a Tourist Visa, and during their Visa term and a possible extension, treat their petition for a residence permit directly with “SEF” (Immigration and Borders Service), starting the business activity simultaneously.

How to apply

The following documents are normally required:

- Visa Application Form from the Portuguese Embassy or “SEF”;
- Passport valid for more than 3 months beyond the planned departure date;
- 1 photo, size 3 x 4 cm, color and plain background, updated and in good condition to support the applicant's identification;
- Criminal Record Certificate, issued in the previous 3 months, in the country of origin or where the applicant has lived for more than a year, authenticated by the Ministry of Foreign Affairs (“*Ministério de Negócios Estrangeiros*”);

- Proof of medical insurance which covers any necessary medical expenses including emergency medical assistance and possible repatriation;
- Application for Portuguese Criminal Record;
- Proof of accommodation: property deed or rental contract;
- Proof of means;
- Independent professional activity: contract for services with a company or Contract/Proposal for services with clients;
- When appropriate, a declaration issued by the competent authority for verification of the profession licensing qualifications that are subject to special requirements or specific certification in Portugal.

At any time you can apply for your personal Tax ID Number in Portugal, so you can get started in your business activity or investment in Portugal.

Rights and Duties of a Residence Permit Holder

A residence permit holder is implicitly entitled to:

- Family reunification
- Education and study
- Undertaking remunerated employment
- Pursuing activities as a self-employed Professional
- Professional guidance, training, improvement and redeveloping
- Health care
- Access to the law and justice

The legal provisions are secured guaranteeing equal treatment to foreign citizens, specifically in connection to social security, fiscal benefits, participation in unions, recognition of diplomas, certificates and other Professional qualifications, as well as the right of access to goods and services available to the public and the application of provisions granting them special rights.



To get started on the right foot in a new business in Portugal, **euroFINESCO** offers the *Freelancer Start-Up Plan*. This comprehensive package of services includes everything that you will need to register and report your activity in the first year of business.

“Início de Actividade” (Registration)

Formal registration of your business activity with *Finanças* is the first step, where we detail for you all required information about yourself and your planned endeavour. Simultaneously, we sort out whether you are exempt from VAT.

“Recibos Verdes electrónicos” (Official Invoices)

Mandatory receipts (“*Facturas Electrónicas*”) in Portuguese only must be issued digitally via the Internet. Meeting this obligation for you is just one of our many on-going services.

Running your Business

You are required to keep books to track your income and expenses. Most freelancers today opt to use a *Finanças*-approved computer program designed for this function. These programs also help with the reporting of periodic VAT declarations as well as *Anexo B* of your *IRS* income tax return. Today almost all submissions must be done over the Internet.

Social Security

In the first-year of business activity, freelancers are excluded from Social Security contributions. Later, you will make deductions based on the amount of income received in the preceding year, based on your *IRS* declaration of activity is VAT exempt, quarterly declarations need to be via the Internet concerning the VAT that you

charge your clients as well as the “IVA” paid making any necessary expenditures during the course of your business activity.

If you subsequently invoice primarily outside of Portugal to other member states of the EU, this reporting could eventually entitle you to refunds for “IVA” that you pay on your business expenses. However, in this situation, you may be required to submit supplementary IVA declarations.

National Health Coverage

As a freelancer, you will be eligible to apply for a “*Cartão de Utente*” (National Health Card), gaining access to full medical coverage in the National health System. The card also entitles you to 70-90% reductions on prescribed medications at pharmacies.

Plain English

As you have probably already learned, Portugal has complex bureaucracy. All the forms and web pages are only available in Portuguese and instructions are often in a language that even native Portuguese can have trouble understanding.

We put the full process to you in Plain English.

With proper guidance, even those who speak English as a Second Language should have little trouble in getting off to a correct start in the first year of business in Portugal.

With **euroFINESCO** at your side to meet compliance obligations, not only will you be off to a good start, you may find interesting opportunities to mitigate tax while better serving your clients throughout the EU and beyond.



nº 13: FREQUENTLY ASKED QUESTIONS

What is the difference between Standard Accounting and the Simplified Regime?

“Standard Accounting” refers to the traditional system of accounting that calculates taxable profits from the net difference between income and expenses. This method requires professional accounting services (“C.C.”). Under the “Simplified Regime”, taxable income is calculated as a percentage of invoiced turnover (from the total of “electronic green receipts”) and is usually self-administered.

May I choose which method I prefer to use?

If you started your business after January 2001, you were initially be placed in the Simplified Regime unless you specifically opted for Standard Accounting on the “*Início de Actividade*”.

Do most Freelancers go automatically into the Simplified Regime?

Yes, but. The Simplified Regime is designed for smaller businesses. Gross turnover must not exceed €200 000 in the fiscal year.

What happens if my income exceeds these limits in a given year?

On a one time basis, you may surpass these thresholds by 25%. However, if repeated or more than 25%, you fall into automatically into Standard Accounting in the following year and must have a “*Contabilista Certificado*” or “C.C.” (Certified Accountant) do the monthly books and reporting. An “*Alteração de Actividade*” (Change in Business Activity Form) must be filed to this effect.

Question: *Initially, I opted for Standard Accounting but now realise that the Simplified Regime could be more advantageous. Can I switch?*

Yes, you may switch regimes in the following fiscal year if you so wish.

Question: *I only had €1,500 of income from a sideline business. How should I report?*

When freelance income constitutes less than one half of an individual's declarable income, this income may be treated as an "Isolated Act" and follows traditional accounting rules. No "C.C." (Chartered Accountant) is required. Please consult the details found in Chapter nº 8.

Question: *How do I calculate my taxable income?*

Until other activity-specific means are established, the calculation for determining taxable income is as follows:

Category B <i>Expanded Simplified Regime in 20145</i>	Base
Sales of goods and services	15%
Liberal Profession business activities (<i>profissões liberais</i>)	75%
Other income from services (<i>includes Local Lodging</i>)	35%
Royalties, know-how, other income in connection with activity; Rental income not declared in Category F.	95%
Non-business related subsidies	30%
Business related subsidies; sources of income not listed	10%

This income is added to other sources of income to determine overall assessment at marginal rates.

Is it true that there is a minimum tax?

No. While it used to exist, the minimum tax was abolished in 2010.

When do I have to collect IVA from my clients?

IVA (Valued Added Tax) requirements are the same under both methods. Once income exceeds €10 000, regular IVA collection and reporting is mandatory, either on a quarterly or monthly basis, depending on business volume.

Do I have to make contributions to Social Security?

Beginning in the second year of business activity, you must make monthly payments to Social Security at the rate of 21.6% of your taxable income. This means that a Freelancer with gross Local Lodging income of €7,351 will have taxable income of only €2,573, below the minimum for Social Security payments.

Can I be exempt from Social Security contributions?

You can request exemption from SS contributions if: a) you are contributing to Social Security system in another country; or b) you are a beneficiary of Social Security, such as receiving an old age pension.

What do I need to start my business in Portugal?

To get started on the right foot in a new business in Portugal, **euroFINESCO** offers the ***Sole Trader Start-Up Plan***. This comprehensive package of services includes everything that you will need to register and report your activity in the first year of business.

- ***“Início de Actividade” (Registration)***

Formal registration of your business activity with *Finanças* is the first step, where we detail for you all required information about yourself and your planned endeavour. Simultaneously, we sort out whether you are exempt from VAT.

- **“Recibos Verdes electrónicos” (Official Invoices)**

Mandatory receipts (“*Facturas Electrónicas*”) in Portuguese only must be issued digitally via the Internet. Meeting this obligation for you is just one of our many on-going services.

Are there additional requirements that I should take into consideration?

You will need to keep books to track your income and expenses. Most freelancers opt to use a Finanças-approved computer programme designed for this function. These programmes also help with periodic VAT declarations as well as filing your *Portuguese* “IRS” income tax return. Keep in mind that all reporting must be done over the Internet. This means that you must be issued a password by the Fiscal Authorities in order to access your information.



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eBooks from euroFINESCO

- 1) Offshore Companies: *Moving Onshore*
- 2) Freelancers in Portugal
- 3) Requirements of the Common Reporting Standard
- 4) Setting Up Fiscal Residence
- 5) Capital Gains Tax on Portuguese Property
- 6) Portuguese Tax Code Summaries
- 7) “VPT” Unveiled
- 8) Tax-Efficient Investing in Portuguese Property
- 9) Income from Portuguese Property
- 10) Taxation on Portuguese Property
- 11) “S.C.I.”: *Sociedade Civil Imobiliária*
- 12) Property Companies: *White-List or Portugal*
- 13) Nominee Companies for Portuguese Property
- 14) Fiscal Representation in Portugal
- 15) “Permutas” or Swaps
- 16) Estate Planning & Nominee Companies
- 17) “I.H.T.” – Residence Rules & Determining Domicile
- 18) Moving to Portugal – *before, during & after*
- 19) Taxation of Pensions in Portugal
- 20) “I.R.S.” Tax Credits
- 21) CGT Mitigation: *14 Arrows in the Quiver*
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 - 23) Acquiring Portuguese Citizenship
 - 24) Visas and Legal Framework
 - 25) Your Rights to Health Care
 - 26) Access to Education
 - 27) Recognition of Qualifications
 - 28) Social Security Entitlements
 - 29) Golden Residence Visa
- 30) Leaving Portugal - *Moving Back*
- 31) Non-Habitual Residency and beyond
- 32) Trusts, Foundations and Fiduciary Structures