The Simplified Regime gets more complicated

2018 introduces important revisions to the Simplified Regime. The Secretary of State for Fiscal Affairs, António Mendonça Mendes, promised that the new measures will not impact low and middle income taxpayers. At the same time, the changes "will not allow wealthier service providers to manipulate the existing system to simplify, rather than lower taxes". "Who truly must justify expenses are those who, earning more than €100,000, have chosen not to apply standard accounting".
The Simplified Regime dates back to 2001, a time when the State did not have the current technology to determine what the necessary costs were for constituting certain forms of incomes and therefore established coefficients to presume these outlays.

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*) – will 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 (± €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.

The remaining expenses continue to have a guaranteed automatic exclusion from taxable income. Since Sole Traders already document allowable activity overhead when reporting VAT, ongoing Simplified Regime accounting should mirror existing "*IVA*" declarations. The reform only impacts freelancers grossing over €27,360. These changes also exclude small farmers and merchants.

Some changes for the better

Hidden by the controversy surrounding the Simplified Regime, there is some good news for the self-employed. For the first time, there will be a minimum level of subsistence applied to Sole Traders. On an annual basis, the minimum untaxed level of income will be €8,980. About 54,000 taxpayers will no longer pay IRS, and another 3,000 will see their taxes go down. For example, a freelancer, earning €650 per month and paying €700 per annum in IRS in 2017, will no longer pay income tax in 2018. Also, adjustments to IRS tax bands will favour the majority of Sole Traders. For many freelancers, this could mean significant relief.

Sole Traders indebtedness

Beginning in 2018, income from green receipts will have a threshold free from liens on debts to the Tax Authority or Social Security. No longer will the rule be "*anything goes*" in the collection of outstanding liabilities. In general terms, as much as two-thirds of a worker's income is protected.

The Government has also approved a revised Social Security contributions plan for Sole Traders. For an analysis of the changes, please consult Brochure nº 106, "New Social Security Contributory Scheme for Independent Workers".

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