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FISCAL & EXPATRIATE SERVICES

FREELANCERS IN PORTUGAL: *Tax Alternatives*

More and more foreign freelancers with successful international businesses are becoming attracted to Portugal. They seek quality of life to complement a mobile professional specialty. At first, the 20% flat-rate assessment under the Non Habitual Resident Programme appears alluring to reduce income tax liability. However, it may not come as a surprise that even better compliant solutions might exist - both national and international - to achieve tax-efficiency within Portugal and beyond. Embedded in Portuguese legislation, the Simplified Regime offers freelancers a generous exclusion for overhead expenses (65%), with income tax based on just 35% of gross invoicing. Social Security contributions also reduce in the Simplified Regime from a net of 22% of taxable income to just 10%.

This standard Simplified Regime levy means that personal income tax often ranges between 6-10%. In other words, a modest and quite acceptable amount. Simultaneously, Social Security contributions also reduce to ±10% of gross income, less than half of what the Non-Habitual Resident would have to pay. Nevertheless, this amount can still weigh heavily on the overall assessment of the self-employed. A further alternative may exist by taking advantage of UK Limited Liability Company legislation to further reduce overall Social Security contributions if you are already registered under UK National Insurance.

Solution: *achieving Social Security exemption in Portugal*

If you are a remunerated director of a UK limited liability company, you pay on-going, modest National Insurance contributions that make you eligible for a Social Security waiver on your freelance earnings in Portugal. In order to assure Portuguese SS exemption, it is best to be registered first with National Insurance as a Company Director in the UK before initiating your freelance business registration with Social Security in Portugal. As a new freelancer in Portugal, you are can apply for exemption from Social Security contributions. If properly structured, the UK structure enables you to achieve the following benefits:

- Exemption from Portuguese Social Security contributions (representing a net savings of 29.6% of gross taxable income);
- No little or no UK Personal Income Tax (when UK income falls within the personal allowance of GB£11,500 / EU€13,350);
- Declared Director's Fees are solely taxable in the UK according to the applicable Double Taxation Treaty and reduce your taxable earnings in Portugal;
- No UK Corporate Income Tax (when the Company's income and expenses are equal);
- Modest National Insurance Contributions of GB£346 / EU€413 pa;
- Eligibility for lifetime pension after 10 years of contributions at age 66;
- Possibility to buy additional years at modest cost;
- A fully compliant solution.

UK Director Fees

Directors' fees are paid by the company for services as a director. They are liable to UK withholding tax ("PAYE") as well as National Insurance Contributions ("NIC"). The Company accounts for each separately.

There are two key issues to consider:

1. **The National Insurance "*lower earnings limit*"**
   To qualify for the UK State Pension and other benefits, you need to have earned more than the 'lower earnings limit' for a period. For state pensions, this period is a long-term calculation. The weekly lower earnings limit is GB£112 / EU€134 for the 2016/17 tax-year.

2. **The tax implications**
   Everyone is entitled to earn a certain amount each year without paying any income tax. In the UK, this is called your *Personal Allowance*. There is also an amount you are allowed to earn before you begin paying any National Insurance contributions ("Lower Earnings Limit"). It makes sense to make the most of these allowances and thresholds each year. A directors' fee is tax deductible to the company and, up to the personal allowance, does not attract Personal Income Tax to the individual director.

How Directors' Fees are assessed

Theoretically you can pay yourself any amount providing the company has sufficient funds to pay both you and the associated PAYE and National Insurance contributions. They will be tax-deductible expenses for your company. The company can offset these fees on its corporation tax.

If fees are equal to the Company's gross invoiced income, no corporate tax will be due. You will only be liable to Personal Tax on the Directors' fees if they are above the *Personal Allowance* thresholds for the year.

When there is just one director, an annual salary up to GB£11,500 will make use of the UK personal allowance to avoid Personal Tax. This amount will result in some Employees' National Insurance becoming payable on the Director's Fee (12% X GB£2,888 = GB£347). The Company's NIC (13.5% X GB£2,888 = GB£390) will be a deductible expense to the Company. If you want two directors, we recommend the same director's fee for each to take advantage of Personal Allowances and National Insurance Contributions for both.

The following table summarises the impact of assessment on different levels of income.

Sole Trader Tax Comparison

Gross Income	€25,000	€50,000	€75,000	€100,000	€150,000	€200,000
IRS - Portugal	€1,269	€3,000	€5,635	€8,207	€14,697	€21,478
SS - Portugal	~~€2,978~~	~~€5,956~~	~~€8,934~~	~~€11,912~~	~~€11,912~~	~~€11,912~~
UK income tax	nil	nil	nil	nil	nil	nil
NIC - UK	€413	€413	€413	€413	€413	€413
net SS savings	€2,565	€5,543	€8,521	€11,499	€11,499	€11,499
Total Tax	€1,682	€3,413	€6,048	€8,620	€15,090	€20,113
take home pay	€23,318	€46,587	€68,952	€91,380	€134,910	€179,887
% gross income	6.7%	6.8%	8%	8.6%	10%	10.6%
instead of	17.4%	17.9%	19.4%	20.1%	17.2%	16.7%

Your UK State Pension

GB£347 per annum X 10 years gives an annual old age pension at age 66 of GB£2,309 pa (EU€2,770 / US$2,863). When updated by the minimum annual cost of living adjustment of 2.5% per annum, your base pension automatically will increase to GB£3,183 (EU€3,788 / US$3,946). While not a fortune, this pension of EU€315/month is a lot more than the Portuguese minimum retirement benefit of EU€265/month after a full career of service. The ten years of minimum contributions mean you will achieve a payback in only 1½ year. From that point on, you enjoy a lifelong pension with no additional contributions.

Buying "gap" years

It is also possible to buy so-called "gap years" or additional pension years. Each year costs GB£733 / EU€880, yielding an extra GB£231 / EU€277. It takes only 3.17 years of pension to pay back this top-up.

> ***Note:*** *In order to register for National Insurance, you need to be resident in the UK. To take advantage of this opportunity, you must put the pieces in place prior to moving to Portugal. Also keep in mind that governing regulations may change with the implementation*

01 April 2017

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