

**FREELANCER IN PORTUGAL /
COMPANY DIRECTOR IN THE UK**

Many successful freelancers (“*digital nomads*”) frequently find the 20% flat-tax assessment under the Non Habitual Resident Programme as a potentially attractive way to reduce their tax liability. Most do not realise that the Portuguese Simplified Regime (Category B) already offers on a standard basis a substantial exclusion for overhead expenses, leading to a tax rate of $\pm 10\%$. Furthermore, Social Security contributions also fall from a net 22.2% of taxable income to $\pm 10\%$. The total is approximately half of the NHR solution.

Achieving Social Security exemption as a Sole trader

As a new freelancer in Portugal, you are exempt from Social Security contributions during your first year of business. When registering in Portugal, you can retain or create a UK limited liability company. When your first year waiver is up, you will be able to achieve the following benefits:

- Full on-going exemption from Portuguese Social Security contributions (a savings of 29.6% of gross taxable income);
- No UK Personal Income Tax when income falls within the UK personal allowance of £11,000;
- Director’s Fees are solely taxable in the UK according to the Double Taxation Treaty so there is no double taxation;
- No UK Corporate Income Tax when Company income and expenses are equal;
- Modest minimum National Insurance Contributions (NIC) of €413 per annum;
- Eligibility for lifetime UK pension rights;
- Possibility to buy additional years at modest cost;
- A fully compliant solution.



UK Director Fees

Director fees are payments from a company to you for your services as a director. They are liable to PAYE (“*pay as you earn*”) and NIC (“*National Insurance Contributions*”) deductions in the UK, but in terms of your company expenditure they need to be accounted for separately.

There are two key issues to consider:

1. The National Insurance lower earnings limit

In order to qualify for the UK state pension and other social security benefits, you need to have earned more than the ‘lower earnings limit’ for a given period. This period varies benefit by benefit and, in the case of the state pension, it can be a long-term calculation. The lower earnings limit is £112 per week for the 2016/17 tax-year (commencing 6 April 2016).

2. The tax implications

Everyone can earn a certain amount each year without paying any Income Tax. This is called your *Personal Allowance*. There is also an amount you can earn before you pay any National Insurance contributions. It makes sense to use these allowances and thresholds each year. A director fee can be a good way to do this. The fee is tax deductible for the company and, up to the personal allowance, does not attract Personal Income Tax.

How Directors’ Fees are assessed

Theoretically you can pay yourself any fee you wish providing the company has sufficient funds to pay both you and the associated PAYE and National Insurance. They will be tax-deductible expenses for your company. The company can offset the fees it pays on Corporation Tax. If the fees are equal to the Company’s gross invoiced income, no corporate tax will be due. You will be liable to Personal Tax on the Directors’ fees if they are above the *Personal Allowance* thresholds for the year.

For a sole director, we recommend an annual salary of less than £11,389.88 to utilise the taxable personal allowance to avoid Personal Tax as well as



lock in modest lifetime pension benefits. This will result in some Employees' National Insurance becoming payable on the Director's Fee (12% X £2,888 = £346.56). The Company's NIC (13.5% X £2,888 = £389.88) will be a deductible expense to the Company. If you want two directors, we recommend the same director's fee each (£11,000 + £389.88 = £11,389.88) to take advantage of the Personal Allowances for both.

The following table illustrates 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 | €1,501 | €3,995 | €7,149 | €10,474 | €18,898 | €27,254 |
| SS - Portugal | €2,016 | €5,951 | €8,184 | €11,064 | €11,064 | €11,064 |
| NIC - UK | €413 | €413 | €413 | €413 | €413 | €413 |
| net SS savings | €1,603 | €5,538 | €7,771 | €10,651 | €10,651 | €10,651 |
| Total Tax | €1,914 | €4,408 | €7,562 | €10,887 | €19,311 | €27,667 |
| take home pay | €23,084 | €45,492 | €67,438 | €89,113 | €130,689 | €172,333 |
| % gross income | 7.7% | 8.8% | 10.1% | 10.9% | 12.9% | 13.8% |
| instead of | 14.1% | 19.9% | 20.4% | 21.5% | 20.0% | 19.2% |

Taxation breakdown

UK Personal Allowance: £11,000

Taxable Company income: £11,000

UK Corporate tax due: 0

National Insurance:

£156.00 X 52 weeks = £ 8,112 pa.

£211.54 X 52 weeks = £11,000 pa

£ 2,888 net (amounts rise 2.5% per annum)

Individual NIC: £ 2,888 X 12.0% = £346.56

(Company NIC: £ 2,888 X 13.5% = £389.88

(deductible in Company accounts)



Your UK State Pension

Your UK pension will depend on several factors: a) your past contributions, b) your future contributions and c) how many years you pay into “NIC”. Following our recommendations, your on-going payments will be small. Nevertheless, you will continue to build years of service and entitlements all the same.

Buying extra pension years

It is also possible to buy so called “gap years” or additional years. Each costs £733, yielding an extra £231.40 pa. It takes 3.17 years to pay back this top-up.

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