



New Social Security Contributory Scheme for Independent Workers

The revamped Social Security contributory plan for Sole Traders has been passed into law. Under the new regime, the deductions applicable to the Self-Employed will be based on the average income of the previous trimester, rather than the preceding year. The first declaration under the new rules will take place in January 2019, based on the earnings of the last quarter of 2018. According to the diploma, until the changes begin to take effect, the contribution base established in October 2017 will continue to apply. Keep in mind that the following rules will only start as of January 2019, not in 2018.

Contributions drop

Under the new regime, Social Security contributions decrease from 29.6% to 25.4%. Based on 70% of the product, Freelancers in services will have a net rate of 17.5%. With a corresponding coefficient of 20%, Sole Traders in production, sales or tourism will have an effective contribution of 5%. 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.

Minimum deduction

Self-employed individuals must declare their income to Social Security each quarter. The new 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.

Other Benefits

The new scheme provides that sick pay may be awarded from the 11th day onwards, rather than after the 31st day as before. Eligibility for unemployment compensation will require 360 days of contributions instead of the current 720 days.



Standard Accounting

In the case of self-employed individuals with standard accounting (“*contabilidade organizada*”) rather than the Simplified Regime, the relevant income corresponds to 1/12 of the taxable profit calculated in the previous year, with a minimum limit of 1.5 X IAS ($\pm\text{€}643$), to extend over a minimum period of 12 months. Nevertheless, these taxpayers may opt for the quarterly scheme.

Local Lodging exemption

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. The same practice applies to those with earnings from renewable energy production.

Withholding, limits and exemptions

Contracting entities should withhold 10% in situations where the Freelancer’s economic dependence (read: income from a sole contractor) exceeds 80%, or 7% when less. Exemption from contributions will continue for self-employed workers who accumulate pension income, as well as those who have contributed the minimum monthly deduction of €20 for a period of at least one year.

On the other hand, Sole Traders 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 $\pm\text{€}1,715$. Before there was no such limit, that is, those accumulating income from dependent work derived from self employment could be automatically exempt from contributions on their Sole Trader earnings.