



## SMALL FARMERS: IRS and VAT

### Farm income excluded from “IRS”

In 2017, income derived from agricultural, forestry and livestock activities continues to be excluded from taxation when the value of income per household does not exceed 4½ times the annual value of IAS (“*Indexante de Apoios Sociais*”)

$$4.5 \times 14 \times \text{€}422.15 = \text{€}26,595.74$$

Although exempt from assessment, this income must still be declared on Annex B of the “IRS” annual declaration.

### Reporting obligations

For income earned in a fiscal year, an “IRS” declaration must be made in May of the following year, including a “*Modelo 3*” and an “*Anexo B*”. Since 2013, internet reporting is required both for IRS returns as well as on-going Electronic Green Receipts (“*recibos verdes electrónicos*”).

Those exempt from VAT must nevertheless issue receipts for each transfer of goods, services or other operations performed. These documents must include the description “*Isento de IVA ao abrigo do artigo 53.º do CIVA*” (VAT-free under Article 53º of the VAT Code).

Small Farmers with agricultural income below €1,670 and pension income under €4,104 do not have to enroll with Social Security nor are they required to submit an annual IRS tax return, although they still must be registered with Finanças.



## VAT

According to the amended State Budget of 2013, VAT exemption shall cease on transactions relating to agricultural production activities and agricultural service benefits. However, exemption from VAT can still apply as follows:

Small farmers can benefit from the conventional VAT exemption scheme if, in the previous year, they did not have:

- a) a turnover exceeding € 10,000.00,
- b) they are registered in the Simplified Regime under Category B of IRS and
- c) they are not engaged in import and export activities or operations.

*(The concept of turnover relates to the supply of goods and services performed by the taxpayer, with financial operations and subsidies not included.)*

If income does not exceed €10,000, the small farmer can continue VAT exemption in other sectors of business activities as well.

This exemption means that, when the producer sells his products or when providing services related to agricultural activities, no VAT is charged to customers. Simultaneously, the small farmer is not allowed to deduct VAT from necessary business expenses.

## Reporting obligations - VAT

Taxpayers should submit a Change in Business Declaration (“*Declaração de Alteração de Actividade*”) if intending to enter or leave the VAT regime. When closing a business activity, the taxpayer should submit a declaration (“*Cessação de Actividade*”) within 30 days from the date of going out of business.