



IRS and Sole Traders (*Category B*)

For those eligible, not only has the “Simplified” lived up to its name but, more importantly, the overwhelming majority of Sole traders are paying less tax than before. That does not mean that tax revenues are down. To the contrary, with a simpler and more equitable system, more freelancers are compliant than ever before. Legislators take note!

Self-Employed Business Activities

All independent business activities fall under Category B. These include:

- Services;
- Literary Rights (Royalties);
- Commercial and Industrial Activities (including sales, construction, manufacturing, property development, fishing, property management, travel and touristic activities, handicrafts, etc.);
- Agriculture and Hunting;
- Research and Development;
- Income also includes proceeds from capital gains, severance agreements and subsidies associated with the business activity;
- Local Lodging.

Registration

Don't leave the formalities of business registration to the end of the year. You must sign up before you open your business. You also must register for Social Security. Electronic receipts are also mandatory.

The Simplified Regime

When no option is specified, the *Simplified Regime* applies. Rather than the traditional method of assessing tax according to net profit



(income less expenses), the *Simplified Regime* defines taxable income as a fixed percentage of invoiced income. The calculation for determining taxable income when gross turnover does not exceed €200 000 is as follows:

- sales of merchandise and products X 15%
- tourist activities X 35%
- billings for services and others X 75%
- other service activities X 35%
- Royalties X 95%
- Non business related subsidies X 30%
- Business related subsidies and other income X 10%
- Income taxed under Fiscal Transparency X 100%

On a one time basis, one may surpass the €200,000 threshold by as much as 25%. However, if repeated or by more than 25%, one falls into Standard Accounting (“*Contabilidade Organizada*”) in the following tax year. A “Change in Business Activity Form” to this effect must be filed.

Standard Accounting

Those with gross business income over €200,000 pass into *Standard Accounting*. Tax is calculated on the net profit: the difference between income and allowable expenses. A registered accountant (“*TOC*”) is required to meet fiscal compliance obligations.

Isolated Act

When self-employed income constitutes less than one half the minimum wage and is less than one half of an individual’s declarable income, such income may be treated as an “*Isolated Act*” and follows standard accounting rules. No “*CC*” (Certified Accountant) is required.