



TAX ♦ SOLUTIONS

General information regarding social security contributions in Portugal

We would like to ensure all our self-employed understand the current law on social security and how the contributions are calculated and reported. We are therefore sending this information leaflet to you and hope you will find it useful.

The state budget of 2018 changed quite substantially the social security legislation for self-employed. Although the law was approved in 2018, it was only to be implemented in January 2019. Therefore, these changes took place strictly speaking only from **January 2019**. What is stated is that self-employed individuals are subject to social security contributions at a rate of **21.4%** and if they are self-employed with spouses, then the social security contribution will be **25.2%**. For most of our clients that provide services, the contribution bracket for self-employed individuals is indeed 21.4%.

On the first year of registration as self-employed, these individuals are exempted of social security contributions for 12 months. Only once the first year is up, social security contributions will kick in.

The process starts with registering with the social security and for 12 months of that activity the individual is exempted. As an example, if a self-employed person is registered in November and therefore exempted until November the following year, he should be paying social security from December. However, because we report income to social security on a quarterly basis, we in this case need to communicate to social security the previous quarter, to know how much to pay in December. As the first year finished in November, December is the first month to start contributing.

We communicate the earnings of the self-employed to the social security in the months of January, April, July and October. The payments are made between 10th and the 20th of the respective months. Social security will notify you through the bank system and send a message via email, informing you the value that you are due to contribute during the quarter applicable. When you go and pay the social security online through your banking system, the amount to pay will already be reflected and is based on the previous quarter.

Should a self-employed person not obtain any income in the quarter, then the minimum contribution will be 20 EUR. However, if this situation remains applicable for a full year, he/she will be exempted in the following year.

The calculation of the social security contributions is on the relevant remuneration of the self-employed income received for 3 months. 70% of the remuneration of a self-employed individual is considered to be the figure to be contributed on and for those selling products it is 20%.



All self-employed individuals may opt to either increase 25% of their contribution or decrease 25% of their contribution. Most of the self-employed individuals want to reduce their contributions due to them being quite significant and relevant. **Tax Solutions by default, unless the self-employed individual states otherwise, chooses to reduce the contributions on a quarterly basis by 25%.** The minimum contribution is 20 EUR, so if your lowest figure is 20EUR, we are unable to apply this 25% reduction. You can increase your contribution, but not decrease in this case.

Exemptions

These are only applicable in the first registration year, if you are an old aged pensioner, have a social security contribution pension or can provide an A1 because you are contributing in another EU state. The European directive states that you only must contribute to one scheme. Normally these A1 documents are only valid for 1 year. All exemptions must be requested formally; it will not happen automatically. Currently the social security department does register the first registration of the activity as exempted but it is always best to confirm.

People liable for social security contributions in Portugal and able to get a social security number are employees, board members, self-employed people and Portuguese nationals.

Example calculation

The monthly contributions are calculated based on the relevant income. For instance, if someone earns 15 000 EUR on a professional level then the relevant income would be 3500 EUR. This is 15000 divided by 3 months, multiplied by 70%. If you then multiply that figure by 21.4%, that will give you a monthly contribution of 749 EUR. However, by opting to reduce by 25%, you are going to decrease this to 561.75 EUR.

Finally, the government has put a cap to the formula above. There is a national survival salary in Portugal (known as the IAS) and this is published every year in the state budget. The national minimum survival salary is currently 438.81 EUR. If you multiply that figure by 12, it gives you a total maximum of 5265.72 EUR. If this is multiplied by the 21.4%, the maximum that you can pay is 1126.86 EUR. This is the highest contribution that can be applied as a social security contribution.

To re-iterate, for services self-employed individuals pay 21.4% and those with establishments (i.e. a shop) pay 25.2% as social security contributions. Non-compliance of reporting of the income earned on a quarterly basis or the lack of payments of the contributions will lead to a penalty fine after 30 days. If an individual pays up to 30 days late, only interest is charged. If an individual pay after the 30 days, they will pay a penalty fine plus the interest.

All social security payments can be paid online through the banking system. Those that want to pay at the social security department, may do so but may not pay anything in cash above 150 EUR. Alternatively, payments can also be made at the post office, at the banks, at home

banking or ATM machine. You may also want to opt for setting up a direct debit for these payments. You can access the social security portal, select current account, then current payments to social security, authorize direct debit and finally fill in the direct debit details of the bank account (i.e. IBAN number) and confirm. Contributions will then be done by direct debit automatically with no option to miss payments and come into arrears.

If you close your business activity, you should ensure the tax department informs the social security about the closure of the business activity. However, you can also go online and stop the activity to ensure social security doesn't continue to charge contributions.

We hope to have provided you with valuable information and as always, stay at your disposal for any further enquiries.

Kind regards

Algarve Tax Solutions

