LUMP SUM PENSION PLAN

Pensions and Portugal

While most people believe that they must contribute regularly throughout their working careers to a pension fund in order to qualify for retirement income, many do not realise that such a qualifying plan can be created on a lump-sum basis. In addition, because retirement can take place as young as 55 years of age, a pension can be set up and drawn years before normal retirement age.

For those who lack or need a private pension trust, this can be created at will. Unlike annuities or conventional onshore pension plans, where income is provided but capital forfeited upon death, the capital base can remain intact and passed on to heirs as part of one's estate. In other words, in addition to being a flexible income vehicle during your lifetime, the same instrument can prove to be a highly effective estate planning tools when passing assets on to your heirs.

Pensions and Taxation

Internationally, in order to avoid double taxation, pensions are taxed in one of several ways:

a) on contributions into the pension fund;
b) on the cumulative growth of the fund;
c) on payment of the pension;
d) a combination of the above.

When assessing pension income, Portugal allows for an exclusion of the contributory portion when these were made on an "after-tax" basis. As a general rule, if contributions were made by the individual or were part of the taxed remuneration package from the employer, then tax obligations are seen to have been met at the time and this portion may be excluded when pension income is eventually declared.

Contributions go into a Pension Fund that is, by definition, tax deferred. Thus, when the pension is eventually paid, this previously untaxed portion needs to be reported and assessed.

When it is not possible to distinguish precisely between the two parts (which is typically the case), current Portuguese legislation defines the exclusion to be 85%, representing the capital contributions, leaving the growth portion of 15% to be reported as taxable income. (These percentages have evolved over the years to take into account prevailing interest rates and inflation factors.) On an annual pension of €100,000 the application of these principles would lead to an annual assessment of less than €500.

Creating a Pension Trust

Those taking up fiscal residency in Portugal with inadequate pension provisions should consider setting up a qualifying pension in order to take advantage of these tax efficient pension exclusion provisions. In addition to qualifying under the Law, income stability and security are primary objectives. Pension Trusts can readily remain outside of the taxable estate, shielded from Inheritance Tax, making them an excellent Estate Planning tool as well.

Pension Objectives

We can help link you to international pension trusts with the following characteristics:

- An international plan, fully compliant with Portuguese legislation;
- Retention of capital and potential for capital growth;
- Provisions for stable yet flexible annual income;
- Highly tax-efficient income treatment;
- Simplified Administration;
- Easily integrated into International Estate Planning requirements;

- While regular income withdrawals are the norm, one-off disbursements are available at any time.
- Investment freedom: choose between a Discretionary Portfolio Management Service or personal direction via yourself or your own investment advisor.

Trust Protector

Many potential settlors are uncomfortable with placing their wealth in the hands of unknown professionals in a distant and unfamiliar land. They want their own handpicked, personal emissary to oversee procedures and assure that their wishes are being respected and their best interests looked after.

At ***euro*FINESCO,** we offer Protector Services to assure that your wishes are carried out faithfully by someone knowledge yet easily accessible to you.

Further Information

For additional information and illustrations of potential tax treatment of pensions, please consult ***euro*FINESCO** Brochure nº 41.

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