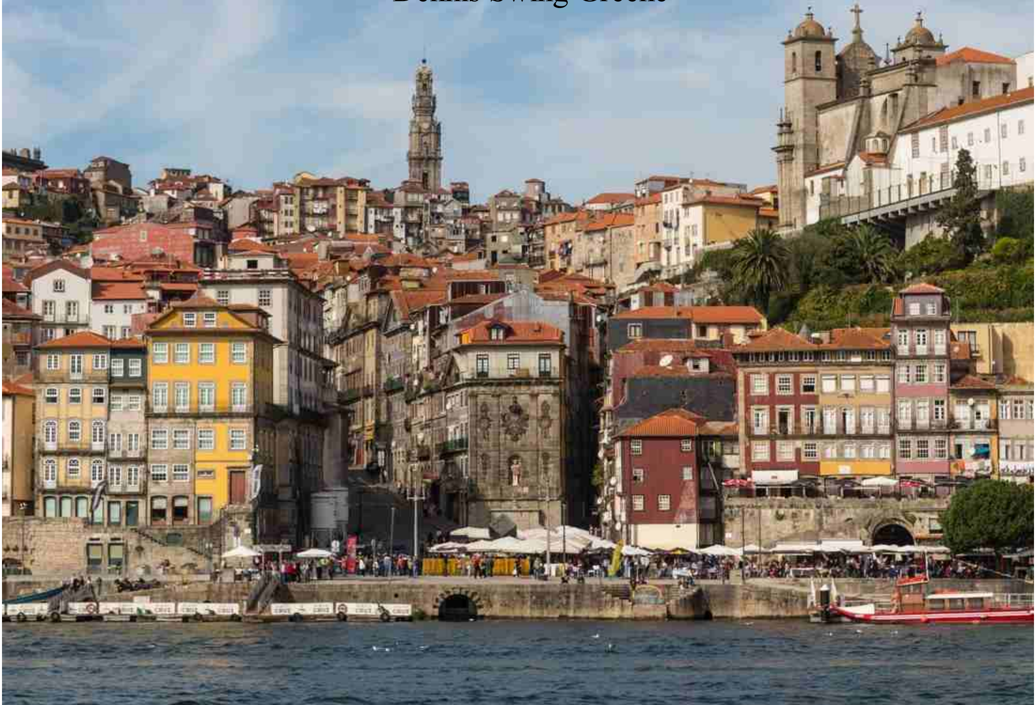
*euro*FINESCO

*e*BOOK nº 19

Taxation of Pensions in Portugal

by

Dennis Swing Greene



PORTUGAL

Ficha Técnica:

10ª Edição:	*euro*FINESCO *e*Book nº19: Taxation of Pensions
Autor:	Dennis Swing Greene
Designer:	Maria de São José Belchior Horta
Distribuição:	*euro*FINESCO*s.a.*
Tiragem:	Internet
Executado:	Abril 2018

euro*FINESCO *s.a.

HEADQUARTERS
Rua do Sol, 4
8200-448 GUIA (Algarve)
tel: +351 289 561 333
fax: +351 289 562 061

Lisbon Branch
Rua A.M. Cardoso, 15, 4ºD
1200-273 LISBOA (Chiado)
tel: +351 21 342 4210
fax: +351 21 342 4212

Madeira Branch
Rua do Aljube, 61, 2º Dtº
9000-067 FUNCHAL (*Sé*)
tel: +351 291 221095
fax: +351 291 221103

Internet
e-mail: info@eurofinesco.com
www.eurofinesco.com
Portugal
mobile: +351 96 910 2813

At ***euro*FINESCO**, we take pride in being a frontrunner in fiscal and expatriate services in Portugal, playing a leading role in interpreting Portuguese fiscal legislation as plain English for the foreign resident community since 1991.

PORTUGUESE TAXATION

- *IRS* - Individual Income Tax Returns
- *IRC* - Tax Preparation for Portuguese Nominee Companies as well as Non-Resident Companies
- Fiscal Residency Transitions to Portugal
- Fiscal Representation for Non-Resident Individuals
- Fiscal Representation for Companies

INTERNATIONAL TAX ISSUES

- Bilateral Tax Treaties
- Jurisdiction Conflict Resolution
- Compliance Issues

PERSONAL TAX PREPARATION

The Portuguese tax system offers surprising opportunities to the foreign resident. When properly prepared, Portugal can prove to be a "tax haven within Europe" for you.

PORTUGUESE "*IRS*" INCOME TAX RETURNS

FINESCO specializes in helping foreign residents by preparing their annual Portuguese *IRS* Income Tax Returns.

NOMINEE COMPANIES FOR PORTUGUESE PROPERTY

- Meeting basic compulsory compliance commitments;
- Liaison between *Finanças* and Company Owners.
- Resourcing information to Owners;

Fiscal Representation

- Protecting your Valuable Investment
- Meeting Compliance Requirements
- Resourcing Key Information
- Liaison with *Finanças*
- Personalised Service
- Payment Facility
- Plain English

Documentation

We can assist you by cutting through the bureaucracy:

- *"Residências"*
- Portuguese Wills
- Driving Licences
- Rates Exemptions
- Fiscal Numbers
- Medical Cards

Small Business Formation

We can help expatriates launch new businesses in Portugal:

- Choosing the right structure
- Accountancy Services
- Social Security & VAT

Cross Border Estate Planning

Cross Border Planning for individuals becomes important when assets and income are split between two or more jurisdictions. If you are a foreign resident, married to a foreigner, have international sources of income, or have assets in a another jurisdiction, Cross Border Planning may be necessary to avoid unforeseen harsh Inheritance Tax consequences.

Anytime foreign laws are introduced into a plan, complexity is an inevitable outcome because contradictory legislation must be accounted for. Because laws are so different in the international arena, planning in advance becomes essential.

One of the common threads in the lives of the vast majority of Foreign Residents is the fact that most, if not all, of their livelihood comes from outside of Portugal. Great confusion and dis-information abound regarding the tax status of Income from Abroad. Before analysing the different requirements surrounding Individual Income Tax (*"IRS"*) and the taxation of pensions in Portugal , it is useful to dispel some of the myths and establish a few of the basics regarding Portuguese taxation and the obligations of the Foreign Resident.

Let us begin with what should be obvious from the start: *where taxes are due is a matter of Law, not of personal preference.* Some may feel morally justified because tax is withheld at source in their home jurisdiction, even though they now live in Portugal. Unfortunately, fiscal requirements under internationally agreed procedures paint a very different picture.

It is the relevant Double Taxation Convention that supercedes domestic law that will determine which jurisdiction is entitled to assess each type of pension that you receive.

Question: I have lived in Portugal for years and have never filed a tax return. Why start now?

***euro*FINESCO**: Those with small pensions (less than €6,000 p.a.) and no other forms of income are exempt from filing. This means that not filing a tax return automatically puts you on the wrong side of the law and vulnerable to undesired consequences. Fines range from €50 to €2,500 for late submissions and assessments may increase by 4% to 200%. Voluntary declarations will assure substantial reductions in any penalties.

Question: ***I already pay tax in my home country. Do I need to declare in Portugal?***

***euro*FINESCO**: Yes. Just because you have already paid tax does not mean that you have done so <u>correctly</u>. The relevant Double Taxation Treaty sorts out such conflicts between two jurisdictions: the country where the income arises and the one where the taxpayer is resident. All forms of personal income are considered in the many articles of this accord. This treaty determines which jurisdiction gets to tax which sources of income. It protects you from being taxed twice and takes precedence over local tax codes. However, it is crucial that you follow the specific rules of this bilateral agreement.

Question: ***My home jurisdiction has always deducted tax from my pension. Can I avoid tax from being withheld at source?***

***euro*FINESCO**: Yes, depending on the conditions of the treaty in force and the type of pension that you receive. The first step is to declare yourself as resident for tax purposes in Portugal. There are special forms for this purpose. Once accepted and processed, you should eventually receive a full refund from your country of origin for any tax withheld after the commencement date of your residency in Portugal. From then on, you should receive your pension gross. You will, of course, need to declare this income in Portugal.

Civil Service or Government Pensions - not to be confused with what the British often call "State Pensions" which are, in fact, from Social Security insurance and not government service - are solely taxable in the country of origin in most cases (although Germany is a notable exception to this rule). However, although not taxed in Portugal, these pensions may need to be reported both for reasons of transparency as well as determination of the overall tax rate.

In accordance with the customary rules of Double Taxation Conventions, most tax authorities retain the exclusive right to assess pensions from national, regional or local government at source and not in the country of Residence.

Distinguishing between Sources

Being sure yours is a government pension or may not always be as easy as you might think. While police, military or foreign service pensions leave little leeway for doubt, the situation for teachers and health workers, for example, can be ambiguous. You may have worked for an agency that changed its status over the years. For example, "NHS" (National Health Service) in the UK was a government entity for many years until the pension fund was separated into a Pension Trust. This change had the net effect of reclassifying the nature of the Fund from public to private. However not all workers were transferred into the new scheme and 15-20% of NHS pensioners today are still paid by local Councils and retain the Government pension status. No wonder it's never easy!

Because there are so many permutations in the international arena, *Finanças* usually insists on a declaration from the local tax authority to clarify any doubts. To avoid potential confusion, it is always sensible to request a Declaration in writing either from the Pension Provider or the local Revenue to be certain of the classification of your pension.

Doubling up on Allowances

One obvious benefit with source assessment of these types of pensions is the separation of taxation from other pensions taxed only in the country of Residence. The net effect is often a "doubling" of allowances, first available in the home jurisdiction for the civil service pension, then a second relief is granted on other pensions taxable in the residence state.

For example, John Smith, a UK national, received an "Old Age" Pension (Social Security) of €9,000 as well as a Military Pension of €6,000. Before moving to Portugal, he paid ±€2,600 in tax on the total income of €15,000, deducted directly at source from his military stipend (PAYE). When he moves to Portugal, the assessment of the pensions is now split between the two jurisdictions. As a result, his *personal allowance* eliminates his UK assessment while his Portuguese *pension allowance* plus *personal tax credits* wipe out any Portuguese taxation, leaving him with the extra €2,600 as additional disposable income rather than taxes withheld at source.

Aggregation

While your government pension may not be taxed in Portugal, it still needs to be reported. There are several reasons for this obligation. First and foremost, while not assessed directly, it is still used to calculate your tax rate.

For example, Jim Jones has 3 pensions from different sources:

Military	€ 8,000
Social Security	€ 7,000
Occupational	€15,000
Total	€ 30,000

While he is assessed on only €22,000 in Portugal (the €8,000 Army Pension is exclusively taxable by treaty in the UK), the full €30,000 is used to calculate the tax rate in Portugal, pushing him into a higher tax bracket. While at first glance this may seem unfair, it affords identical overall tax treatment to what would have happened had Mr. Jones remained in the UK, thereby maintaining a level playing field.

A quite different reason to declare has to do with your "*IRS*" Tax Return. Beyond reporting and settling any assessable income to *Finanças*, your tax declaration is also used as proof of income in a variety of circumstances. For example, if you want to buy a house and need a mortgage, you must submi«

FREQUENTLY ASKED QUESTIONS
from
***euro*FINESCO**

Are you in doubt? Have a query?

Find the answer in our FAQ's:

1. Pensions: *the Audit Protection Plan*
2. Capital Gain Tax
3. Fiscal Representation in Portugal
4. Licensing for Short-Term Lets
5. Fractional Ownership
6. EU Savings Directive
7. Dividends & Royalties
8. Rental Income
9. Sole Traders & *the Simplified Regime*
10. Portuguese "*IRS*" - Scope of Taxation

A Diversity of Benefits

Social Security benefits are comprehensive and far reaching, representing a safety net to protect workers from a broad range of adverse circumstances:

- ✓ Sickness and Maternity
- ✓ Accidents at Work and Occupational Disease
- ✓ Unemployment
- ✓ Invalidity
- ✓ Death Grants and Survivors Pensions
- ✓ Old Age Benefits
- ✓ Family Benefits
- ✓ Non-Contributory Benefits

While in the present context we are examining only Retirement Pensions, it should not be difficult to understand that Old Age Benefits are part and parcel of a broad safety net of benefits that form an environment unto itself.

Working in Different Countries within the EU

The following principles apply to a person who stops working in one country and continues his activities in another.

- In every country where a person was insured, his Social Security insurance record is preserved until he reaches pensionable age; in other words, contributions which have been paid are neither transferred to another country nor paid out to the person at the time if he is no longer insured in that country.
- Every country where a person was insured for at least one year will have to pay an old-age pension when the person concerned reaches pensionable age; for example, if you have worked in three countries, you will get three separate old-age pensions once you reach pensionable age.

- This pension will be calculated according to your insurance record in that country. If you were insured there for a long period of time, you will get a relatively 'high' pension. If not, your pension will be relatively 'low'.

General Rules when moving to another EU country:

a) **Aggregation:**
If the period during which you have been insured in a country is not long enough to qualify for a pension in this country (ie. less than one year), account will be taken of any periods of insurance which you completed in other countries.

b) **Residence or Stay Abroad:**
Your old-age pension will be paid to you regardless of where you stay or reside within the European Union or the European Economic Area without any reduction, modification or suspension. This applies not only to former 'migrant workers' but to all pensioners residing in another State.

c) **You Have Been Insured in One Single Country**
In this case, the amount of your pension will be calculated in accordance with the legislation of that country in exactly the same way as for its own nationals. It does not matter whether or not you reside in that country when you reach pensionable age.

d) **You Have Been Insured in More Than One Country**
You will get a pension from every State where you were insured for at least one year. These pensions will correspond to the insurance periods completed in each of the States concerned.
For example, you were insured:
   - for 10 years in Member State A,
   - for 25 years in Member State B, and
   - for 5 years in Member State C

This means that you were insured for 40 years in total before you reached pensionable age. Member State A will calculate the amount of pension you would be entitled to after 40 years of insurance in that

State. It will then pay you the amount corresponding to your actual periods of insurance, i.e. 10/40 (or 1/4) of this amount. Similarly, Member State B will pay you 25/40 (or 5/8) of the amount you would be entitled to in that State after 40 years of insurance. Finally, Member State C will pay you 5/40 (or 1/8) of the amount you would have been entitled to in that State after 40 years of insurance.

Taxation of Old Age Benefits from Member States

In accordance with the OECD Model Double Tax Treaty, Social Security pensions are taxed in the Country of Residence. The logic is simple: it is in the State where the pensioner is living that tax revenues are required to pay for necessary services. Just because the pension might come from another source has little to do with public services that citizens have come to expect from government.

Taxation of Social Security Pensions from outside of the EU

Beyond the European Union, it is difficult to generalise about the assessment of Social Security benefits. However it is worth noting that Social Security pensions from the USA and Canada may be taxed in both jurisdictions within certain limitations with double taxation being eliminated by the Country of Residence via international tax credits.

INFORMATION BROCHURES
from
***euro*FINESCO**

We have over 50 brochures with essential information about many areas of interest for Expatriates in Portugal

Subject	nº of titles
• NOMINEE COMPANIES:	13
• SHORT TERM LETTING:	6
• SOLE TRADERS:	2
• REDOMICILIATION:	4
• FISCAL REPRESENTATION:	4
• CAPITAL GAINS TAX:	4
• FISCAL RESIDENCY	2
• DOCUMENTATION:	5
• PENSIONS:	2
• MISCELLANEOUS:	3

Under the Portuguese tax code, Private Pensions encompass a broad spectrum of pension instruments:

- ✓ Occupational Pensions
- ✓ Personal Pension Plans
- ✓ Regular Income from certain types of insurance policies
- ✓ Lifetime or Temporary Annuities

Private pensions are normally assessed in the country of Residence; in our case, Portugal. In most double tax treaties, the Source Country cedes taxation rights to the country of Residence. This means that all withholding should stop and the pension is paid gross. In order to achieve this feat, you must first declare yourself to be resident for tax purposes in Portugal, normally after your first IRS submission. This is done via a Certificate of Fiscal Residency issued by *Finanças* or via special forms to be submitted to the authorities in both jurisdictions. Once process is complete, you should receive a full refund from your Country of Origin for any tax withheld after beginning your residency in Portugal. From then on, you should receive any income gross and your declaration requirements will be in Portugal.

Consult Chapter 4 for full details of Fiscal Residency Transfer

Qualifying pension income is entitled to a Pension Allowance that is deducted from the gross pension prior to calculating any tax due. Long term resident pensioners should be aware of the drop in their pension allowance in recent years in their "*IRS*" tax declaration. The deduction began falling after 2005 when it reached a peak of €8,283. In 2007, the adjustment tumbled to €6,100. 2008 was even worse with the write-off shrinking to only €6,000. In fiscal year 2016 and beyond, the allowance is fixed at €4,104 where should remain unaltered for the foreseeable future.

The alleged purpose of the decline is to close the gap between deductions for working taxpayers and retirees. Prior to the changes after 2005, salaried employees could deduct only €3,237.41 while pensioners got more than two and one half times that amount. Since 2005, pensioners have gradually been losing ground, permitting workers to begin to catch up. Currently, at €4,104, the allowance is identical for salaries and pensions.

Potential Pension Exclusion

Under Portuguese tax law, contributions to pension plans typically have already satisfied tax obligations in the original fiscal year in which they were made. Therefore, they may potentially be treated as "capital". If this is the case, only the subsequent growth within the Pension Fund is taxable. When the appropriate statutory criteria have been satisfied, a portion of the income may be excluded from assessment.

While straightforward in definition, any number of complications can arise in practice in the international arena that could make it difficult to demonstrate definitively that the required standards have been fully met. Differences in legislation and language frequently make fiscal reviews complicated, time consuming and expensive.

Question: I have heard that some of my pension income might be excluded from assessment. Why is this so?

***euro*FINESCO:** Contributions to pension plans normally have satisfied tax obligations in the fiscal year that they were made. Therefore, they can be protected from further assessment. According to Portuguese tax law, when made by the individual, they are assumed to be on an *after-tax* basis. When from the employer, certain prescribed criteria must be satisfied in order to qualify for a partial exclusion from taxation.

Question: How does Portugal avoid potential double taxation?

***euro*FINESCO:** Portuguese legislation defines a percentage of the pension to be excluded when certain formal criteria have been met. Originally 65%, this exception increased to 80% in fiscal year 2007 and to 85% in 2008 and beyond.

Question: How do other countries deal with this double taxation issue?

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

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

For example, Holland explicitly exempts contributions in each year in which they are realised. Thus tax relief is granted up front. In the UK, retirees are entitled to a tax free "lump sum" on retirement. This constitutes a one-off settlement to eliminate double taxation. Subsequent pension disbursements are made on a normal tax basis.

There are many other variants around the world.

Question: Why could applying the tax exclusion be complicated for foreign residents in Portugal?

***euro*FINESCO:** While the statutes in question are essentially simple and straightforward, their application to Foreign Residents in Portugal is not. Normally, contributions were made outside of Portugal as a *non-resident*. Differences in legislation and language frequently make fiscal reviews complicated, time consuming and expensive.

4. Non-Habitual Residents

The *Non-Habitual Resident* regime, in force in Portugal since 2009, offers the promise of an attractive tax rate for professional income (20%) and full exemption from other income earned outside of Portugal. On the other hand, there is a great deal of ambiguity and uncertainty, both in the wording of the legislation and its subsequent interpretation and implementation.

The designated specialties that qualify for this status are listed in Ministerial Decree 12/2010. They include scientists, artists, auditors & tax consultants, medical doctors & dentists, university professors, computer engineers and technicians, investors and company directors & managers.

Up until now, the implementation of this new regime has been riddled with logistical problems: lack of information at local tax offices, prolonged delays and confusing bureaucracy. In addition, no mention nor clarification has been made regarding Social Security obligations - a considerable accessory expense for anyone working. Someone with the intelligence necessary to qualify for one of these "value-added " professions is unlikely to jump into such a long-term commitment without greater assurances of success.

This legislation was introduced with the specific purpose of attracting highly skilled professionals to move to Portugal and contribute to the country's development. To achieve this status, we understand as implicit that one must be actively engaged in a qualifying activity and subsequently compensated in Portugal, either via salaried employment or as self-employed in the field. This compensation currently enjoys the special tax rate of 20% and additional income earned outside of Portugal becomes tax exemption under most circumstances. The extrapolation to any and all pensioners has been a subsequent interpretation that has led to the on-going controversy.

Legislation

Category H income (pensions) received abroad by non-habitual residents shall be exempt from tax in Portugal when:

1) for the part in which that income, where it arises from contributions, did not give rise to deduction (*for Social Security*) for the purposes of article 25º (2) of the Personal Income Tax Code;

2) or where:
    a) it is taxed in the State of origin in accordance with the relevant Double Taxation Convention; or
    b) in accordance with article 18º of the Personal Income Tax Code, it cannot be considered that this income was obtained in Portugal.

Despite being tax exempt under the conditions described above, this income must be aggregated in order to determine the tax rate applicable to the remaining taxable income.

Finally, because this status does not allow for a double exemption, it should be mentioned that the Decree-Law gives non-habitual residents the possibility to waive the right to exemption in favour of the tax credit method.

Our Concerns

We remain uneasy with several potential fundamental problems regarding the Non-Habitual Residents status:

Retaliation

The NHR regime requires only a potential liability to taxation in the source State under the rules of a tax treaty or of the OECD Model Tax Convention. After your registration as a *non-habitual resident* in Portugal, you must request an International Certificate of Fiscal Residence from the Portuguese tax authorities. This document then has to be sent to the tax authorities in then country of the source of income. In principle, this should enable you to be exempt from tax in that jurisdiction.

However, this narrow interpretation is not necessarily shared by all tax authorities around EU. In the Netherlands, for example, the NHR status is under hostile attack from the *Belastingdienst* with Portugal accused of being a "Tax Haven" inside Europe. Under current practice, withholding tax exemptions that were formerly granted without difficulty are being systematically rejected by the Dutch tax authorities.

Eventual EU ruling
Given the European Union Commission's active stance against tax competition between member states, it seems likely that the Commission and/or the Court of Justice of the European Union will eventually issue a ruling on the admissibility of the NHR status. What impact such a decision might have on the 10-year tax holiday is anyone's guess.

Deferred capital tax exemption
Under *Brussels IV*, the EU Directive that governs estate successions within the European Union which came into effect in August 2015, you may now choose either for the Law of the country of your *nationality* or the Law of the country of your last *habitual residence* for determining succession rights to your cross-border estate.

If you have elected *Non-Habitual Resident* status in Portugal, you will likely only to be seen as *habitually resident* after the 10-year period has passed plus the usual five years to qualify for "*permanent resident*" status.

Given the fact that Portugal has no Inheritance Tax between immediate relatives (and no Wealth Tax at all), high net worth individuals will find themselves opting out of eligibility for capital tax exemption in exchange for their income tax holiday under NHR. Fifteen years may prove too long for many to wait.

On-going Opportunities in Portugal

The Portuguese Tax System already offers ample ways to minimise taxation without the need for further incentives. Let's look at a few:

a) no Wealth Tax;
b) no Inheritance Tax;

c) Innumerous Tax Exclusions ranging from 33% to 85% across almost every category of income. For example, holiday letting income is taxed at only 5% after an 80% exclusion;
d) Roll-Over Relief - If you sell your principal residence and fully reinvest the proceeds in a new primary home, there is full exemption on the capital gain.
e) *Fiscal Territoriality* - many taxes are only domestic in scope. The corollary to this rule is that many forms of investments from abroad may be tax exempt.

While Portugal may not be known as a Tax Haven within Europe, knowledge, *know-how* and foresight may be able to achieve considerably more tax relief than the *Non-Habitual Resident* status without the disarray, reversals and limitations.

Existing Pension Exclusion

Under the Portuguese IRS tax code, contributions to pension plans may seen as having already satisfied tax obligations and be treated as "capital". In this case, only the subsequent growth portion of the Pension Fund is taxable upon withdrawal. If the appropriate statutory criteria have been satisfied, 85% of pension income may be excluded with the remaining 15% liable for assessment.

> ***Example:*** *In fiscal year 2016, a couple, each earning €50,000 in occupational pensions, can have a total gross tax (before deductions) of just €259 on the total income of €100,000 after the exclusions.*

With tax treatment like this on the books for many years, who needs the confusion and disarray of the Non-Habitual Residence status in the first place?

5. Bridge Pensions

While many people still believe that they must contribute regularly throughout their working careers to a pension fund in order to qualify for retirement income, most do not realise that such a qualifying plan can be created at will on a lump-sum basis. In addition, because the law does not necessarily stipulate age as a benefit prerequisite, a pension can be set up and drawn years before normal retirement age.

For those who lack or need a private pension plan, 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 also remain intact and be passed on to heirs as part of one's estate. In other words, in addition to being a flexible, potentially tax efficient 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 a 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 Plan

Those taking up fiscal residency in Portugal with inadequate pension provisions should consider setting up a qualifying pension so in order to take advantage of these tax efficient pension allowance provisions. In addition to qualifying under the Law, income stability and security are primary objectives. Pension Plans 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 plans with the following characteristics:

- *An international plan, fully compliant with Portuguese fiscal 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;*
- *Investment freedom: choose between a Discretionary Portfolio Management service or personal direction via yourself or your own investment advisor.*

Whether you are planning to move to Portugal upon retirement, simply seeking a more attractive lifestyle in the sun or have lived here for many years yet are in arrears in your compliance obligations, you will need to transfer your Fiscal Residency if you spend the majority of the year (more than 183 days) in Portugal.

This means that you will be assessed on a worldwide basis in Portugal and are required to submit a Portuguese "*IRS*" tax declaration, with only rare exemptions.

Your First "*IRS*" Return

Submitting a tax return is not necessarily synonymous with actually paying tax. The Portuguese tax code has generous allowances and unexpected exclusions on certain forms of income, broad deductions for numerous types of expenses and liberal tax credits for many common expenditures. Many people find their new tax burden in Portugal to be significantly lower than they experienced in their country of origin.

Fiscal Residency

Submitting your first income tax submission in Portugal is just the kick-off point. You will not be recognised as resident for tax purposes in Portugal or no longer resident back home unless you follow the appropriate procedures. With your first "*IRS*" declaration in the hands of *Finanças*, the next step is to make application for a *Certificate of Fiscal Residency.*

Eliminating Withholding

With the completion of this formality, the International Division of the Tax Authority in your home country must be alerted to the change in your status. Some countries have specific dual language forms, while others accept the Portuguese Certificate of Fiscal Residency once duly translated. From this point on, most sources of income can be paid to you gross, thereby avoiding withholding tax levied at source.

Your Refund

Normally, there will be taxes that were inappropriately withheld after the initial date of establishment of fiscal residency in Portugal. By completing the appropriate steps, you will most likely be entitled to a tax refund. Many taxpayers are pleasantly surprised to find that the fiscal residency transition process, when properly completed, can pay for itself leaving extra cash in your pocket.

Remember . . .

Just because you have already paid tax elsewhere does not mean that you have done so *correctly*. The relevant Double Taxation Treaty sorts out potential conflicts between jurisdictions and defines your obligations as a taxpayer.

Compliance

Beyond meeting basic formalities and essential obligations, ***euro*FINESCO** will be by your side to help resolve problems that may arise in navigating your way through Portuguese bureaucracy.

It is our purpose at ***euroFINESCO*** to assist you to become fully compliant while helping you pay the legal minimum.

It may come as a surprise that filing a correct tax return in Portugal can actually save you money. Submitting a tax declaration is not synonymous with paying tax. The Portuguese tax code has generous allowances and unexpected exclusions on certain forms of income, and liberal tax credits for many common expenditures. Many people find their tax burden in Portugal to be significantly lower than in their country of origin. Note these examples:

Pensions

- Each pensioner is entitled to an allowance of €4,104. This means that a retired couple, after personal allowances, typically receives the first ±€15,000 of pension earnings free of tax.
- Many pensions paid within EU and beyond are entitled to an appreciable exclusion applying basic principles of elimination of Double Taxation. If eligible, an occupational pension of €60,000 should have little or no tax to pay.

Non-Habitual Resident

- Only Portuguese-sourced income of a non-habitual resident's salary is subject to Portuguese Income Tax. Additionally, this income will be levied at a flat rate of 20%.
- Foreign-sourced income will be exempt from assessment in Portugal when assessed under the rules of standing Double Taxation Agreements or the like.

Disabilities Benefits

Sometimes the common consequences of aging qualify taxpayers for 60% or greater disability status and still not hurt your golf game. If you are eligible, you will enjoy enhanced deductions.

Income from Portuguese Property

When reported as Portuguese-sourced business income, final tax rates are 4% or less with no further tax liability in the home jurisdiction for Non-Residents.

Dividends

Dividends paid by Portuguese and EU Companies are entitled to a 50% exclusion and are taxed on the other half at marginal rates with withholding on national dividends.

Roll-Over Relief

If you sell your principal residence and fully reinvest the proceeds in a new home, the capital gain is exempt. This is to be extended eventually to new home reinvestment anywhere in the European Union.

Nominee Companies

If you purchase property for investment purposes, using a Portuguese Nominee Company will provide many benefits including simplified bureaucracy and tax efficiency.

Inheritance Tax

Portugal abolished Inheritance Tax as of 2004. Transfers to immediate relatives (spouse, children, grandchildren, parents and grandparents) are tax exempt. All others pay only 10% Stamp Duty.

Sidestepping "Forced Heirship" Rules

Portugal is a Civil Code jurisdiction that applies the principle of "*forced heirship*" where partial inheritance of the estate (*"a legítima"*) is the legal right of the spouse and children simultaneously. In many cases, this may not necessarily be the preferred order of the testator. However, Portuguese succession rules only apply within Portugal (*"territoriality"*). You can use a foreign succession instrument, such as a Trust, to accomplish your goals that may fall at odds with domestic criteria.

These and other benefits are entitlements under legislation. It is your right as a citizen and taxpayer to take maximum advantage of these tax breaks. Who knows? Portugal may prove to be a legal "*tax haven*" for you within Europe.

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HEADQUARTERS
Rua do Sol, 4
8200-448 GUIA (Algarve)
tel: +351 289 561 333
fax: +351 289 562 061

Lisbon Branch
Rua A.M. Cardoso, 15, 4ºD
1200-273 LISBOA (Chiado)
tel: +351 21 342 4210
fax: +351 21 342 4212

Madeira Branch
Rua do Aljube, 61, 2º Dtº
9000-067 FUNCHAL (*Sé*)
tel: +351 291 221095
fax: +351 291 221103

Internet
e-mail: info@eurofinesco.com
www.eurofinesco.com
Portugal
mobile: +351 96 910 2813

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