



## AUDIT PROTECTION PLAN

***I have heard that a portion of my pension might be excluded from assessment. Why is this so?***

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 basic criteria must be satisfied in order to qualify for a partial exclusion from taxation.

***How does Portugal avoid potential double taxation?***

Portuguese legislation defines a percentage of the pension to be excluded when formal criteria have been met. Originally 65%, this exception increased to 80% in 2007 and to 85% as of 2008.

***How do other countries deal with this double taxation issue?***

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, some countries explicitly exempt contributions in each year in which they are realised. Thus tax relief is granted up front. In others, 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.

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

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.

***How does the Audit Protection Plan work?***

By charging a set percentage of tax savings (as calculated from the difference between taxation with and without the exclusion), we can make the Audit Protection Plan available to all who qualify, whether the pension be large or small. If we were to charge directly for defence services, we would have to advise small and medium-sized pensioners that the risk may be greater than the reward and therefore would not be able to recommend taking advantage of this opportunity in Portuguese legislation.

***Since Audit Protection Plan fees are based on a fixed formula, some pay substantially more for what is, in fact, a similar service. Why?***

Everyone contributes a constant percentage based on their individual earnings. We believe this to be a fair solution: our clients keep the lion's share of the tax savings and, at the same time, are protected from the "worst case scenario". We can assure substantial tax reductions not only to our larger pensioners but also to a broad range of retired persons who might not otherwise be able to afford the necessary protection to mount a proper defence in a complex, international tax inspection.

***When euroFINESCO prepares my tax return, I already receive tax advice in Portugal. Why do I also pay for the Audit Protection Plan?***

The Audit Protection Plan does not give you advice. It provides coverage in the event of a tax audit by the Portuguese fiscal authorities. By spreading the risk amongst a group with similar circumstances, each individual contributes a small percentage of their net savings to create a fund to cover the cost of the defence of those that are audited.

***If I have problems in my home jurisdiction, will the Audit Protection Plan cover the costs of my defence there?***

No. The Plan is designed to protect you as a resident taxpayer in Portugal. Serving clients from many countries, *euroFINESCO* does not have the resources to defend clients on a worldwide basis. Such a plan would prove to be unworkable and far too expensive.

***I have worked hard to provide myself with a good income in my retirement. Why should I fund others on more modest pensions?***

Everyone pays the same percentage so treatment is proportionally equal. The savings for smaller pensioners may be less but the added spending power can also make a significant difference.

***Why are the Audit Protection Plan charges paid annually rather than on a one-off basis?***

Your Audit Protection fee does not pay for direct costs to you but rather contributes to the defence of those undergoing tax reviews each year.

***Why is participation in the Audit Protection Plan mandatory?***

Quite frankly, were the Plan optional, it would collapse and no one would benefit. There are funds available to defend you because everyone participates. In addition, *euroFINESCO* is prepared to defend you because we work on this “pre-payment” basis. Otherwise, we would be obliged to invoice clients for thousands of Euros in fees that some would have difficulty in paying.

***I have been contributing to the Audit Protection Plan for several years now and fortunately have never been audited. Why do I have to continue to pay?***

As happens with health or other forms of insurance, it is preferable to pay premiums on a regular basis than to fall ill and make claims. Being healthy is far better than being reimbursed.

***If this is an “insurance”, why do I have to pay IVA?***

The Audit Protection Plan is not an insurance policy *per se*. Were it to meet all of the requirements to be considered officially “insurance”, the overall increase in cost would far outweigh any potential “IVA” savings.

***My charges went up appreciably last year? Why is there a difference?***

While *euroFINESCO* uses the same 10% net formula each year, there are other variables in the equation that can lead to substantially different results from one year to another. Tax rates go up. Deductions go down. Some pensions have cost of living adjustments. Exchange rates can fluctuate considerably. Add these factors together and the potential increase can be significant. From *Finanças*, audits increase constantly in number and become more and more expensive to conduct. What you would have paid at 100% assessment would also be that much greater. As stated before, you save the lion’s share of the difference.

***What happens should I decide not to participate?***

We do not regard participation as optional. Non-participation will be seen as clear instruction that you do not wish to take advantage of the exclusion and we will complete your tax declaration accordingly.

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We strive to find solutions that best suit the needs of all of our diverse clients. However we realise that this is not always easy. Over the years, the Audit Protection Plan has evolved into what we sincerely believe to be the fairest method to bring the greatest benefit to the broadest number of people who otherwise could not defend themselves on their own in a matter of complex international fiscal law.