Partial Pension Exclusion

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

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

When assessing pension income, Portuguese legislation takes into consideration a potential exclusion of the contributory portion when the tax basis cannot be determined. As a general rule, if contributions were made by an individual or were part of the taxed remuneration package from the employer, then tax obligations are regarded to have been met at the time. This portion is seen as "capital" and may be excluded when pension income is eventually declared. These contributions go annually 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. According to the Individual Income Tax Code, when it is not possible to distinguish between the two parts (Capital and Growth), Portuguese statutes (*"CIRS"*) allow for the exclusion of 85%, representing the capital contributions, leaving the assumed growth portion of 15% to be reported as taxable income. As an example of the application of these principles, a €100,000 pension could lead to a gross assessment of less than €1,600 before applying eligible tax credits.

Eventual Justification of the Exclusion for Foreign Residents

While the legal principles behind these statutes are straightforward, their application to Foreign Residents in Portugal is not. Inevitable differences in legislation, language and procedures frequently make tax audits complicated, time-consuming and expensive.

Audit Protection Plan

To help clients faced with this problem, we have developed the *Audit Protection Plan* to mitigate the risks implicit in international fiscal reviews. If inspected by the Portuguese Tax Authority, ***euro*FINESCO** will stand behind you, assuming any necessary disbursements. We pledge to defend your case as we have done successfully for others over the years. Our *Audit Protection Plan* is designed to safeguard you, the taxpayer, as well as our Company, the one providing the support services. Keep in mind that taxation is always the direct responsibility of the taxpayer, not the representative, as mandated under the Portuguese General Tax Law ("*Lei Geral Tributária*").

We believe this to be a fair solution: you, as an individual, keep the lion's share of the tax savings and are shielded against the steep expenses generally associated with international tax audits. Our plan also permits ***euro*FINESCO** to secure substantial tax savings not only to those with larger pensions but also to a broad range of pensioners who might not otherwise be able to afford the necessary coverage to mount a proper defence in a complex, international tax review.

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