



A traditional IRA vs a Roth IRA

The principal difference between a Roth IRA and a traditional IRA is how and when you achieve tax relief. In the traditional IRA, your contributions are tax-deductible when they are made. This practice contrasts with the tax advantage of a Roth IRA where withdrawals after retirement are not taxed.

Roth IRAs

A Roth IRA is an individual retirement account where you are taxed on the contributions going into your account. Future withdrawals become tax-free upon retirement. Roth IRAs are best when you anticipate your taxes being higher in the future than in the present.

Traditional IRAs

A traditional IRA is an individual retirement account that offers tax advantages to savers during the working years of their careers. Investments are allowed to grow tax-deferred; you are not taxed on gains until you withdraw them. Early withdrawals are taxed as income and assessed a 10% penalty.

Taxation in Portugal

For tax purposes in Portugal, there is no distinction between the tax treatment of the two options. As a Portuguese tax resident, either option will be assessed in the country of tax residency (in this case, Portugal) according to the Double Tax Treaty between the two countries.

Non-Habitual Residency in Portugal

When eligible for “NHR”, there is full tax relief on most forms of pensions for ten years, turning the traditional IRA the more tax-efficient solution for US nationals retiring to Portugal.