



## ***US Expats - Taxation of Pensions in Portugal***

Americans living in Portugal for more than six months during a fiscal year (01 January - 31 December) have dual tax accounting obligations. As resident for tax purposes in Portugal (over 183 days), you must declare your worldwide income to the Portuguese Tax Authorities (“AT”).

Simultaneously, you are also required to file an annual tax return to the Internal Revenue Service, reporting your global income as part of your duty as a US citizen. To resolve inevitable conflicts between these two prerequisites, a Double Taxation Agreement (DTA) exists.

### **US Social Security Pensions**

Under the terms of this treaty, US Social Security pensions “may be taxed” at source (USA). To eliminate double taxation, the country of residence (Portugal) agrees to grant a tax credit equal to the US levy. Subsequently, the “AT” assesses according to domestic rules.



Many Americans who have grown accustomed to receiving their Social Security pensions free of tax in the States will find that, in Portugal, they will no longer have any applicable tax to credit, leading to ongoing Portuguese assessment.

### **Government Pensions**

If you receive a civil service pension from past government service (local, state or federal), this retirement benefit will remain exclusively taxable at source in the United States.

Nevertheless, this income must be reported on your Portuguese tax return to determine your final tax rate. Although not assessed in Portugal, the pension will still be considered as part of your total income and will have a “top-slicing” effect on your other sources of revenue.



## **Private Pensions**

On the brighter side, other pensions have different treatment under the agreement. Private pensions paid in the USA - occupational pensions, IRAs, 401Ks, annuities, etc. - now become solely taxable in your country of residence (Portugal). These rules allow you to take advantage of beneficial elements of Portuguese fiscal legislation such as the Non-Habitual Residency regime 10-tax holiday or appreciable exclusions routinely available on many forms of private pension income. NHR status has the added benefit that Social Security pensions also become exempt for up to a decade in Portugal.

## **Eliminating Double taxation**

To avoid being taxed twice on your private pensions and receive a refund on any tax inappropriately withheld at source in the States, you must complete IRS form 8833 - *Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)* - as part of your annual US tax declaration (form 1040). A generic model of Form 8833 is available from **euroFINESCO** for you to follow as well as blank forms for you to use.

***Note: Remember to use a separate 8833 Form for each pension provider***