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FISCAL & EXPATRIATE SERVICES

US Retirement Savings Plans

When contemplating a move to Portugal, you need to decide what will come with you and what to leave behind. One key consideration is your pension as an essential element in your sustenance. There are several significant points to keep in mind:

- Review the specific regulations regarding early and regular withdrawal from your current pension program;
- Evaluate the "small print" of potential International Pension Plans to determine if there are any cross-country obstacles when transferring your pension;
- Assess the underlying investment options of any potential new Pension Plan: what are your options and who can advise you;
- Research the tax implications or further restrictions imposed by legislation in Portugal;
- Determine if you might benefit from transferring your entire US plan versus taking payments to be transferred and converted on a monthly basis;
- Consider using a reputable Foreign Currency Exchange service to reduce currency conversion costs when moving your pension.

Your 401(K) - Considerations for withdrawals

Before the age of 59.5, early withdrawals trigger a federal charge of 10% on 401(K) and IRA accounts. However, once beyond that age threshold, one of the greatest benefits of these plans is the ability to have access to all of your retirement savings at once without penalty. There are no longer restrictions; it is up to you to determine how to use the proceeds. You can reinvest the proceeds in an International Pension Plan that offers a broader range of investments than those offered in the US within the 401(k). Also, you can enjoy significant tax breaks, helping you make the most of your new life in Portugal.

Contributions to a 401(k) plan are tax-deferred. Growth is not subject to annual capital gains tax assessment as would be the case in most US investment portfolios. Once a lump-sum distribution is made, your earnings are no longer tax-deferred, leading to lower investment returns in the long run.

A traditional IRA

With an IRA, when you reach 59.5 years of age, you can start taking retirement distributions from your traditional IRA without restrictions or penalties just as you can from a 401(k). As resident for tax purposes in Portugal, you can take advantage of the 10-year tax holiday offered under Non-Habitual Residency (NHR). Alternatively, you may be eligible for an 85% exclusion under the standard Portuguese tax legislation.

International Pension Plans

While most people believe that they must contribute regularly throughout their working careers to a pension fund in order to qualify for retirement income, many do not realise that such a qualifying plan can be created by transfer or on a lump-sum basis.

Unlike annuities or conventional onshore pension plans, where income is provided but capital forfeited upon death, the capital base can remain intact and be passed on to heirs as part of one's estate. In other words, in addition to being a flexible income vehicle during your lifetime, the same instrument can prove to be a highly effective estate planning tool.

Taxation of International Pension Plans

When assessing pension income, Portuguese legislation can allow for an 85% exclusion. On an annual pension of €100,000, the application of this principle would lead to a gross assessment before qualifying tax credits of just €1,500 (1.5%).

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