



BARGAIN TAX ADVICE:
“Penny wise, Pound foolish”

If pricing were absolute, then everyone would always use the cheapest solution. However, we all know that this often does not prove to be the case. A cut-rate method, while initially light on the wallet, can often turn out to be the more expensive in the long run. "Value for money spent" is the constant criteria to measure the true value of any expenditure. Fiscal Services are no except to this rule.

Filling in the Boxes

According to our sources, the lowest charge we have found to complete a Portuguese "IRS" income tax return is only €10 for an Internet submission. When you pay so little for a basic service, you are likely to get what you pay for: *not much*. Such a "bargain" offering is designed for the box-standard Portuguese wage-earner or pensioner: copy the numbers from the annual earnings statement, throw in a couple of deductible expenses and the submission is ready for the most elementary mandatory reporting.

If you are like most foreigners in Portugal, little or none of your income arises here. Income comes from abroad and often follows different rules and procedures from equivalent domestic situations. Even trained Portuguese accountants are often unaware of the choices and obligations that face the foreign taxpayer due to Double Tax Treaty rules and EU regulations.

Example n°1: Mr. & Mrs. Smith received most of their taxable income from Bank Interest. Using the conventional autonomous reporting method, they paid a flat 28% and were no longer entitled to credits for deductible expenses. The Bottom Line: over €3,000 tax to pay.



Had they used the alternative aggregate reporting method, their tax bill would have been less than half.

Conclusion: It is not that one method is good and the other bad. What is key is to know when one way is more favourable and how to apply it. Needless to say, you won't get much expertise for €10.

Example n°2: *Mr. & Mrs. Jones received occupational pensions totalling €40,000 (€25,000+ €15,000). Their joint tax bill was over €7,000. Had they taken advantage of a double taxation exclusion, they would have had no tax due.*

However, since occupational pension plans have always been optional for Portuguese employers (although mandatory in most European countries since World War II), the vast majority of Portuguese retirees have only Social Security retirement benefits. Therefore, there is little familiarity with private pension assessment alternatives amongst Portuguese tax practitioners, specially for €10.

Example n°3: *Frans S. has a villa that he let to holidaymakers on a Local Lodging basis last year. His annual turnover was €30,000. Reporting as normal rental income, his gross tax bill was in excess of €8,400. Had he used a more tax-efficient alternative method, his assessment would have been only less than €1,500: a five-fold savings. €10 sounds more expensive all the time!*

Advice

When you consult with a tax advisor, filling in the blanks should be only one of your concerns. Equally important is the opportunity to take counsel from a professional who can answer many of the questions that arise concerning the myriad forms of assessment taxpayers inevitably face. Not only can you clarify doubts and misunderstandings, it is your chance to explore alternatives that can add up to tax savings.



Example n°4: *After dealing with the routine information of their income tax declaration, Mr. & Mrs. Brown mention that their villa is becoming too much work and they are considering selling and downsizing to more manageable accommodations. Their intention is to have extra cash to make the most of their remaining years in Portugal. By planning ahead, they can structure the sale and achieve considerable savings in Capital Gains Tax assessment.*

Back Up

Submitting a tax return can be only half the battle. In recent years, an ever increasing number of tax declarations are selected for review. These audits mean a magnifying glass examination of income and expenses declared and all of the corresponding documentation. While typically traumatic for any taxpayer, these inspections can be particularly difficult for foreigners whose rudimentary command of Portuguese is sorely challenged in a complex, technical and potentially hostile situation.

Example n°5: *Sven S. received a disability pension paid in Sweden. Although he was granted handicapped status in subsequent years, Finanças overlooked his impairment in the first year's declaration. Sven tried to correct the mistake but, despite repeated attempts, the problem was never properly sorted and the debt remained on the books. Due to the outstanding liability, he eventually lost eligibility for disability benefits. This led to a reassessment of all of the years with total tax due in excess of €25,000. Sadly, too ill and worn down to fight, Sven eventually paid and reluctantly moved back to Scandinavia.*

"Penhoras"

If taxes fall in arrears, automated computer-driven operations chase payment of unpaid taxes and quickly lead to dreaded "penhoras" (threatened seizures of property). Depending on the amount perceived



to be owed, this may mean the impounding of an automobile, capture of salary payments, freezing of a bank account or even the auctioning of one's home. In other words, this is serious business and very nerve wracking to say the least.

Example n° 6: *Mr. Wood receives a Social Security pension from the USA with the habitual 25% withholding tax levied against non-residents.*

Unfortunately, Finanças ignored the mandatory international tax credit and assessed Mr. Wood a second time on the same income. Understandably indignant, he refused to pay this double taxation. However, when his bank accounts were frozen, Mr. Wood was ready to capitulate and settle the mistaken debt.

Fortunately, he finally sought professional counsel who bypassed the local "Repartição de Finanças". The matter was taken to Finanças' international office in Lisbon where the problem was eventually resolved.

Conclusion

In tough times, we are all looking for corners to cut. However, when it comes to taxation where there is so much at stake, you want to have the best at reasonable cost rather than a so-called “bargain” that could cost you dearly in the end.