Pensioners' paradise

Many of us have dreams of spending our old days in a sunnier climate. But before you retire in the sunset of one of the Mediterranean countries, it is worthwhile to think about the consequences. And make sure you leave the taxman behind.The basis for your pension will be your state pension for which you and your employer have been paying social security contributions. If you want more, you need to start saving now. And a tax effective way of saving is via a pension scheme or a group insurance. You do not pay tax on the contributions your employer pays into these schemes until you take up your pension.

How much your state pension is will depend on where you have been building up your pension rights. If you have been working in one country it is relatively easy to calculate your pension rights. But if you have worked in several countries, you will have to claim part of your pension in each of these countries.

Within the EEA (the EU, Iceland, Liechtenstein and Norway) everything has been done to keep things simple. You apply for your pension with the pension institution in your country of residence. In Belgium that is the National Pensions Office (see www.onprvp.fgov.be).

The NPO will then contact the pension institutions in each of the countries where you have paid social security during your career. And they will inform the NPO of your pension entitlements under their own law. Roughly speaking, if you have been working ten years in Ireland, in Italy and twenty years in Belgium, you will receive half a Belgian pension from the Belgian NPO. The Department of Social Welfare and the Istituto Nazionale della Previdenza Sociale will pay you respectively a quarter of an Irish pension and a quarter of an Italian pension.

Each country will pay its part of your pension directly to you, wherever you live within the EEA. The NPO even pays your Belgian pension anywhere in the world.

Belgium has also signed bilateral agreements with Algeria, Canada, Chile, Congo, Israel, Morocco, Poland, San Marino, Switzerland, Tunisia, Turkey, the US and Yugoslavia to apply similar rules for nationals of these countries who come and work in Belgium.

If you stay in Belgium, you get a tax credit of € 1.637,96 which effectively wipes out the tax on the maximum state pension. For a family the maximum is € 14.369 ; for a single pensioner it is € 11.495. As for your private pension scheme, if you take it out by way of monthly or annual annuities, you will have to declare these and pay full tax without any tax credit. However, there is a tax efficient way of taking out the full pension capital. If you redeem the capital at the age of 65, you will only pay 16.5 % on the capital (and 10 % on the part that has been built up with your personal contributions, on top of your employer's).

But when you leave Belgium, you should really check out the rules abroad. Each country has different rules to help pensioners and reduce the tax on the pension payments. But some countries are not only sunnier, they also treat pension capitals paid out by a pension fund in a more favourable way.

It can therefore be tax effective to retire first and set up residence on the French Riviera or on a Spanish Costa, before you redeem your pension capital. France and Spain do not tax the pension capital, and what is more, the double taxation treaty with Belgium states that only the state of residence can tax pension income and pension capitals.

That was too much for the Belgian taxman and he changed the rules by introducing an exit tax. However, that was done in a rather clumsy way. If you redeem your pension after you have moved your domicile abroad, you are deemed to have redeemed it on they day before your departure from Belgium. This allows the Belgian taxman to charge 16.5 % tax anyway, but retroactively.

The Belgian Supreme Court has now brought solace for those who move to a country that has signed a double taxation treaty with Belgium. This treaty takes precedence so that it wipes out this exit tax. We are quite safe, at least until Belgium renews the tax treaty in such a way that it allows Belgium to levy the exit tax. And that is exactly what Belgium has done in the new treaty with the Netherlands. Fortunately, there are no plans for a new treaty with France of Spain yet.

Marc Quaghebeur
4 March 2004