

*euro*FINESCO

eBook n° 7

**“VPT” UNVEILED:
Taxing of your new
Portuguese Property**

by

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PORTUGAL

Ficha Técnica:

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Taxing your new Portuguese Property

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***Local Lodging Plan
for Non-Residents
from euroFINESCO***



If you have qualifying short-term tourist lets, our *Local Lodging Plan* allows you to reduce your Portuguese income tax assessment to just 5%. Even more important, this specific category of income is normally taxable only in Portugal, exempt from subsequent assessment in the country of tax residency in most cases.

*(If you do not as yet have a Local Lodging License for your property, **euroFINESCO** can help you obtain the necessary permit as part of our standard Fiscal Representation service)*



Beyond Advising on Portuguese Property Tax

At **euroFINESCO**, we take pride in being a frontrunner in fiscal and expatriate services in Portugal, playing a leading role in interpreting Portuguese fiscal legislation as plain English for the foreign resident community since 1991.

PORTUGUESE TAXATION

- *IRS* - Individual Income Tax Returns
- *IRC* - Income Tax Preparation for Portuguese Nominee Companies as well as Non-Resident Companies
- Fiscal Residency Transitions to Portugal
- Fiscal Representation for Non-Residents

INTERNATIONAL TAX ISSUES

- Bilateral Tax Treaties
- Jurisdiction Conflict Resolution
- Compliance Issues

PERSONAL TAX PREPARATION

The Portuguese tax system offers surprising opportunities to the foreign resident. When properly prepared, Portugal can prove to be a “tax haven within Europe” for you.

PORTUGUESE “*IRS*” INCOME TAX RETURNS

FINESCO specializes in helping foreign residents by preparing their annual Portuguese *IRS* Income Tax Returns.

NOMINEE COMPANIES FOR PORTUGUESE PROPERTY

- Meeting basic compulsory compliance commitments;
- Liaison between *Finanças* and Company Owners.
- Resourcing information to Owners;

FISCAL REPRESENTATION

- Protecting your Valuable Investment
- Meeting Compliance Requirements
- Resourcing Key Information
- Liaison with *Finanças*
- Personalised Service
- Payment Facility
- Plain English

DOCUMENTATION

We can assist you by cutting through the bureaucracy:

- “*Residências*”
- Portuguese Wills
- Driving Licences
- Rates Exemptions
- Fiscal Numbers
- Medical Cards

SMALL BUSINESS FORMATION

We can help expatriates launch new businesses in Portugal:

- Choosing the right structure
- Accountancy Services
- Social Security & VAT

CROSS BORDER ESTATE PLANNING

We can provide you with comprehensive Estate Planning services:

- Analysis
- Evaluation
- Implementation



Most foreign homeowners are baffled by the recent changes in the taxation of their properties. At the heart of the 2003 Property Tax Reform is the “*Valor Patrimonial*” or rateable value of property. They often ask themselves why this evaluation was so low in the first place - sometimes too low to assess in some instances. For most people, the determination of this appraisal is a total mystery. Yet how this evaluation is determined is a clear manifestation of what the Reform was designed to address.

The Old “V.P.”

Under the former regime, “*Valor Patrimonial*”, or Rateable Value, was based on the *income potential* of a property. If you own residential property, then this value will be seen as potential rent. Imagine that in the neighbourhood your house might rent for €500 per month. The formula worked like this:

$€500 \times 12 \text{ months} \times 15 \text{ years} = €90,000 = \text{“Valor Patrimonial”}$

This system was construed over a half century ago when rental properties were quite abundant. A small white paper square taped in each of the windows of an apartment or house meant “For Rent”. In those days, prior to any national Social Security system, it was not uncommon for middle class families to save and eventually purchase property to rent to create an income flow that would sustain them in retirement. When the Revolution came in 1974, all of this changed. New laws were passed, giving tenants more rights than the landlords. Rents were frozen, as well as the

“*Valor Patrimonial*”, for all practical purposes. As always happens historically, when time stops still artificially, distortions set in that eventually grow to ludicrous proportions. On the eve of the current Reform, half of the property owners (those who live in older housing) paid only 1% of the tax collected on properties. At the other end of the spectrum, 1% of the owners (those with brand new housing) contributed over a third of property tax revenues. No wonder they had to change the System!

The Current System

The current “*Valor Patrimonial Tributável*”, referred to as “*V.P.T.*”, is *market-based* rather than a hypothetical reflection of potential rental income. It is a combination of the size of the property, cost of construction, location, age, type of usage and quality of construction. A so-called “objective” formula has been defined to determine your “*V.P.T.*”. However, with over 7.1 million urban properties to be re-evaluated, it was an impossible task to carry out this system over night. Therefore, the legislation allows a 10 year period for implementation, with re-evaluations triggered automatically whenever properties change hands.

The Interim System

In the meantime, the decision was made to adjust the old “V.P” for inflation, based on the last time the property was re-evaluated. The following table gives the inflation coefficients, with 51.72 applied to all properties up to 1970:

Year of Registration	Coefficient	Year of Registration	Coefficient
1971	52.79	1995	1.6
1972	49.35	1996	1.5
1973	44.86	1997	1.48
1974	24.63	1998	1.43
1975	29.32	1999	1.41
1976	24.62	2000	1.38
1977	18.88	2001	1.34
1978	14.78	2002	1.29
1979	11.66	2003	1.29
1980	10.05	2004	1.18
1981	8.05	2005	1.16
1982	7.13	2006	1.12
1983	5.71	2007	1.1
1984	4.43	2008	1.07
1985	3.71	2009	1.08
1986	3.35	2010	1.07
1987	3.07	2011	1.03
1988	2.79	2012	1
1989	2.49	2013	1
1990	2.33	2014	1
1991	1.85	2015	1
1992	1.81	2016	1
1993	1.68	2017	-
1994	1.6	2018	-

Each Council determines its own Rates between 0.3 - 0.4%, with the higher end being most common. As such, a 2004 Rates Bill - called "I.M.I." ("Imposto Municipal Imobiliário") - for a home registered in 1987 is calculated as follows:

<u>Old "V.P."</u>		<u>Coefficient</u>	=	<u>Interim "V.P."</u>		<u>Rate</u>	=	<u>IMI</u>
€90,000	X	1.29		€116,100	X	0.4%		€464.40



n° 2: Area, Age and Usage

Additional Criteria

The new “VPT” Evaluation System (“*Valor Patrimonial Tributário*”) is the centrepiece of the 2003 Property Tax Reform. Comprised of five basic components, this calculation is based on factors relating to characteristics of the property. In other words, evaluation is seen in function of “market value” rather than “*potential rental income*” as in the previous system.

Factor n°1: Constructed Area and Implantation

The Area factor is a function of *cost per square metre*. In 2018, the base value is €603 m². Area coefficients are determined as follows:

<i>Type of Area</i>	<i>Coefficient</i>
Covered Habitation Area	1
Outbuildings	0.3
Garden and Patio areas (<i>up to 2x implantation</i>)	0.25
Surrounding land	0.005

To calculate this primary factor, add the areas, previously multiplied by the respective coefficients, then multiply by the cost per square metre. In the next step, this base will be altered by the remaining coefficients.

2018	€482.40 x €1,25 = €603,00
2017	€482.40 x €1,25 = €603,00
2016	€482,40 x €1,25 = €603,00
2015	€482,40 x €1,25 = €603,00
2014	€482,40 x €1,25 = €603,00
2013	€482,40 x €1,25 = €603,00
2012	€487,20 x €1,25 = €609,00

Factor nº 2: Type of Usage

The Area Factor is adjusted by type of Usage, having been assigned coefficients as follows:

<i>Type of Usage</i>	<i>Coefficient</i>
Commercial	1.2
Services	1.1
Residential	1
Subsidized Housing	0.7
Industrial and Warehouse	0.6
Covered Parking	0.4
Degraded Housing	0.45
Open air Parking	0.08

Factor n° 3: Age

Next, the base is adjusted in accordance with the year of construction or last re-evaluation of the property. The Age Coefficient is determined as follows:

<i>Age in Years</i>	<i>Coefficient</i>
Less than 3	1
3 to 5	0.98
6 to 10	0.95
11 to 15	0.9
16 to 20	0.85
21 to 30	0.8
31 to 40	0.75
41 to 50	0.65
51 to 60	0.55
61 to 80	0.45
More than 80	0.35

FISCAL & EXPATRIATE SERVICES
from
euroFINESCO



We are a full service company, helping expatriates to make the most of their life in Portugal since 1991. Whether it be meeting obligations in a new land, maximizing opportunities in a smooth transition from the past, or financial and estate planning for the future, euroFINESCO is here to guide you, keep you compliant and prepare you to meet your goals.

TAX CONSULTANCY

FISCAL REPRESENTATION

NOMINEE COMPANIES FOR PORTUGUESE PROPERTY

CROSS BORDER ESTATE PLANNING

SMALL BUSINESS FORMATION

DOCUMENTATION



n° 3: **The Location Factor** *“the wildcard”*

Probably the biggest wild card in the evaluation equation is the Location Coefficient. Determined by each local Council, different parts of a township are assigned a coefficient that can range from 0.35 at the low end to a 3.0 for the most ideally situated properties. In other words, depending on the location and local criteria, there can be almost a ten fold difference between the values of two otherwise identical properties. Why inexplicable disparities exist between councils, such as Silves and S. Brás as illustrated below, is anyone’s guess.

Factor n° 4: *Location*

The table of the following page illustrates the highs and lows in each Council in the Algarve, depending on how the property is used.

How these coefficients will play out in the marketplace still remains to be seen. Will a 3.0 be a sign of ultimate prestige and luxury? If so, *Quinta do Lago* and *Vale de Lobo* should demand an upgrade when properties fall short of this “perfect” mark. On the other end of the spectrum, will a lovely township on the banks of the Guadiana such as Alcoutim or São Brás de Alportel, nestled in the mountains, suddenly become in demand because of their low rates? One thing is certain. Perspective buyers have an important element in the equation when searching for a new home.

Percentage of “IMI” - Algarve

COUNCIL	Residential	Rustic
Albufeira	35%	80%
Alcoutim	30%	80%
Aljezur	37%	80%
Castro Marim	40%	80%
Faro	50%	80%
Lagoa	36%	80%
Lagos	38%	80%
Loulé	38%	80%
Monchique	30%	80%
Olhão	40%	80%
Portimão	50%	80%
S. Brás de Alportel	44%	80%
Silves	30%	80%
Tavira	39%	80%
Vila do Bispo	30%	80%
V.R.de S. António	50%	80%



n° 4: Quality of Construction

Pros and Cons

Having reviewed the first four factors in this complex Property Evaluation equation (Usage, Area, Age, and Location), we arrive at the final parameter for determining your “VPT”: Quality of Construction. This component is a two-edged sword: attractive features, such as a swimming pool or private garage, will push up the overall value of your home. Living on a dirt track, as opposed to a tarmac road, will drop the appraisal.

FACTOR N° 5: *Quality of Construction*

VARIABLE COMPONENTS:

Single Family Dwelling	(0,0 - 0.20 %)
Construction Quality	(0.0 - 0.15 %)
Exceptional Location	(0.0 - 0.10 %)

FIXED RATE COMPONENTS

<u>Increase:</u>	<u>%</u>	<u>Decrease:</u>	<u>%</u>
Closed Condominium	0.20	No kitchen	0.10
Single Garage	0.04	No bathroom	0.10
Collective Garage	0.03	No running water	0.08
Private Swimming Pool	0.06	No electricity	0.10
Collective Swimming Pool	0.03	No gas	0.02
Tennis Court	0.03	No sewage	0.05
Other Leisure Equipment	0.04	No paved road	0.03
Central Air Conditioning	0.03	Diminished living quarters	0.06
Elevator (building < 4 stories)	0.02	No elevator (>3 stories)	0.02
		Building in poor repair	up to 0.10

Note that the single family dwelling coefficient is determined along with the location factor. Actual “Quality of Construction” and “Exceptional Location” will need to be determined by a *Finanças* assessor on a case-by-case basis so your simulation may not be wholly accurate. Nevertheless, you will still be close and you will have unveiled what, until now, has been cloaked in mystery.



5º: Your Simulation

the bottom line

Your Simulation

With all of the pieces in place, you are ready to assemble your “VPT”. The best and simplest way to do this is to use the *Finanças* simulator on the internet:

<https://zonamentopf.portaldasfinancas.gov.pt/simulador/default.jsp>

Whenever a property is transacted, a “*Modelo 1*” must be completed and submitted to *Finanças*. With this form, you will be asked to submit architectural drawings of the house and situation of the property. The outcome of this process will be the determination of the “VPT” and any tax owed will be based on this figure. If you disagree with the result, there is an appeal process that can be invoked.

If a preliminary assessment has already been made on transitional values, then a second assessment will be levied based on the difference.

Eventually, all properties will undergo the “*Modelo 1*” process so that eventually, over a 10 year period, all houses in Portugal will be brought up to the new norms. Time will only tell how many mini-reforms will occur between now and then.

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