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OECD and the excessive tax burden in Portugal

In a study with recommendations to promote the real estate market and the balance supply-demand, the OECD stated, last week, that "*there should be less tax on real estate transfer and stamp duty*" and, for instance, the United Kingdom and the Netherlands started to implement the policy with success. The property tax (IMI) was also discussed, but we will get back to this subject soon.According to the OECD, the taxes on transactions *"raise the mobility costs"*, and this factor might help to *"adjust the market"*. Impressively, from this report it also follows that "*the Portuguese the income of 11 years to buy a 100 m² house".*

For many, this might be a novelty, for others, not exactly. This might be the case for us, as for a long time this association claims that, besides the heavy tax burden on real estate, reflecting in the price of the houses, the housing problem is also connected to low income. These are the key issues: weak and stagnant families income, that does not keep up with properties' appreciation and excessive tax burden. Let's check this latest. For long have we been asking for specific and effective actions to fight the brutality of the taxes levied on real estate assets, with direct implications in the high prices and want of projects, specially housing projects, generating scarce supply and consequent price rice.

This reminds me of an issue which we addressed here, in this same column, about a year ago, when we wondered about: *"Affordable Housing with 30% Tax Rate?"* Pondering precisely on the high tax burden, we compared the taxes levied on the purchase of a house in both Portugal and Spain, and we reached this impressive conclusion: 30% in Portugal – 10% in Spain.

Broadly speaking, >30% (reaching >40% if we add to it all the remainder assorted fees) of the house purchase price in Portugal corresponds to taxes, whereas in Spain this value falls drastically to 10%.

First of all the non-deductible 23% VAT weights heavily on the real estate investments, which, for housing urban buildings, amounts to a end cost born by the end buyer considering that the real estate developer has no chance of deducting the VAT paid during the construction. We have a non-deductible maximum rate of VAT in a project that aims at allocate housing to people. This is unique in Europe, and would be difficult to explain to any international investor. Furthermore, the sale of housing urban buildings are real estate transfer tax liable (IMT) at a progressive rate, which might reach 7.5% and stamp duty at 0.8% rate.

Consequently, in Portugal at least 30% of a property's purchase price are taxes (23% VAT + 7.5% IMT + 0.8% Stamp Tax). For comparison, in Spain, the sale of a house has a much lower tax level. First of all, the transfer of housing new urban buildings is subject to a reduced VAT rate of 10%. However, this rate allows the promotor to deduct the VAT on expenses incurred, thereby allowing to reduce impact of the end costs. Moreover, housing in Spain is not IMT liable.

For quite a long time we have been asking for what is now ratified by the OECD: **an integrated intervention targeting the tax resetting required to boost the real estate investment in housing,**

considering that the current tax burden is intolerable, makes projects impossible, raises the real estate prices and reduces competitiveness. When there is so much talking about access to housing, it is important to lower taxes as the OECD said. And lets face it, this does not require to "invent the wheel", simply look at our neighbouring country, to the United Kingdom or the Netherlands.

Besides the need to get rid of the "dumbest tax in the world", the old SISA and now IMT, as described in 2001 by the Prime-Minister António Guterres, one of the steps required to **create Affordable Housing would be the substitution of the IMT with a reduced VAT rate for the transaction**, thereby allowing the promotor to deduct the VAT previously incurred during the construction stage, and **thereby creating a 30% reduction of taxes on the Portuguese houses, bringing it closer to the 10% incurred in Spain.**

However, regarding the IMI, we will never endorse a raise, as it makes no sense to tax someone just because he or she owns a property, which in most cases, in Portugal, does not mean wealth, considering the many years of rent freeze and current lack of rental market allowing landlords to get good incomes. We will definitely endorse the elimination of the biggest tax freak, the AIMI. To burden with a double tax whoever has properties or land for housing equals to inviting all who are willing to invest, develop or build a house for the Portuguese to stop.