

## The buoyancy of the Portuguese housing market boosts municipal tax revenues

In the last five years, home prices in Portugal have risen by around 63%. Similarly, the number of home sales has amassed 32% growth in the last five years. In this article, we will analyse the impact of this housing market boom on municipal tax revenues related to housing.

First of all, we will look at the budget execution of local government administrations. In aggregate terms, for the past 14 years local government corporations have registered surpluses of around 0.2% of GDP on average (see first chart). Municipal government revenues for the most part come from tax revenues and current transfers, each accounting for around 37% of the total in 2022 (up from 30% in 2009). Tax revenues encompass so-called municipal taxes, which include the municipal property tax (known as IMI),<sup>1</sup> the municipal property transfer tax (IMT),<sup>2</sup> the municipal surtax (known as the “Derrama”)<sup>3</sup> and the vehicle tax (IUC).<sup>4</sup> Among these, the first two (IMI and IMT) together accounted for around 82% of tax revenues and 30% of all revenues in 2022<sup>5</sup> – exceeding the 77% and 23%, respectively, registered in 2009.

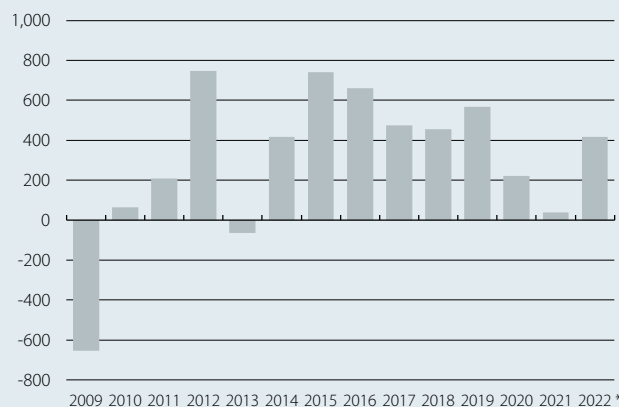
Therefore, they constitute an important and growing source of funding for municipalities. With regard to transfers, the contribution of transfers made by the Financial Equilibrium Fund (FEF) stand out, accounting for almost half of all current transfers in 2022.<sup>6</sup>

At the same time, the municipal governments’ main expenses include staff costs, the purchase of goods and services (e.g. fuel, rent, office supplies, communications, etc.), current transfers (e.g. transfers to district boards) and the acquisition of capital goods or investment

1. Municipal tax paid by property owners, calculated based on the equity value for tax purposes with different rates depending on the property type. The revenue goes to the municipality where the property is located.
2. Municipal tax paid by the buyer of a property, which depends on the value stated in the sale contract deed or on the tax equity value (the higher of the two), the rate, the location and the purpose. The revenue corresponds to the municipalities where the properties are located.
3. The municipal surtax (“Derrama”) affects legal entities’ prior year taxable profits that are not exempt from corporate income tax (IRC); it depends on the location, trading volume and the number of jobs created/maintained.
4. Tax charged on owners of vehicles that are registered in the country, payable annually in the month of registration by both individuals and legal entities. The amount depends on the year of registration, the type of fuel used, the engine size and CO<sub>2</sub> emissions.
5. According to the preliminary budget execution data in the public accounting records, published by the DGO.
6. In order to guarantee financial stability, funds are distributed between the central government and the municipalities by means of the following transfers: a general subsidy through the Financial Equilibrium Fund (FEF), a specific subsidy through the Municipal Social Fund, a contribution equivalent to 5% of personal income tax (IRS) revenues and a contribution of 7.5% of VAT revenues from the accommodation, catering, communications, electricity, water and gas sectors.

### Portugal: balance of local government administrations

(EUR millions)

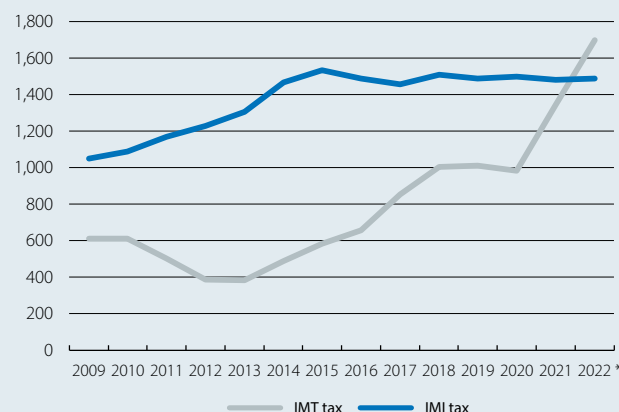


Note: \* The figure for 2022 is preliminary.

Source: CaixaBank Research, based on data from the DGO.

### Portugal: IMT and IMI tax revenues

(EUR millions)



Notes: IMT tax is a municipal tax on property transfers, while IMI tax equates to a tax on real estate assets. \* The figure for 2022 is preliminary.

Source: CaixaBank Research, based on data from the DGO.

equipment (including software, social facilities, construction works, paving, etc.). These four items were responsible for over 92% of the expenditure incurred by municipalities in 2022.

As we have mentioned, the income collected through the IMI and IMT taxes is a major source of funding for municipalities. In the last five years, the revenues from these two taxes increased by around 38% in total, with the growth of IMT revenues being particularly pronounced (98.5%) (see second chart). This pattern is reflected in the change in the structure of the tax revenues of local government administrations; whereas in 2017 the IMI tax represented around 50% of total tax

revenues, in 2022 its share dropped to 38%. In contrast, the IMT tax went from accounting for 29% of the total in 2017 to 44% last year, as can be seen in the third chart.

The IMT tax is designed in such a way that the amount collected depends on the total value of the sale transactions carried out, which in turn depends on the average value of each transaction as well as on the number of sale transactions, a relationship which is reflected in the last chart. Thus, a 1% change in the total value of the sale transactions carried out generated approximately a 1.7% increase in IMT tax revenues in 2022 (whereas in 2017 the increase was 1.0%). This relationship with the housing market does not occur in the case of IMI tax revenues, since this tax depends on the number of homes in existence and on their equity value for tax purposes, rather than on sale transactions that are carried out. However, it should be borne in mind that the amount of IMT tax revenues also depends on other factors not discussed in this article, such as changes to the tax rates and regulation.

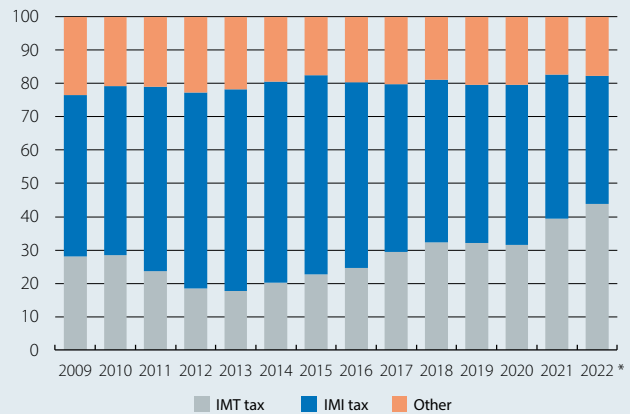
We do not yet have data on the budget execution by municipality for 2022, but according to the accounts for 2021 it is apparent that there are some municipalities which depend more on IMI and IMT tax revenues than others. For instance, within the Lisbon metropolitan area, these revenues represented around 30% of the total revenues for the Sintra municipal government, while this figure rises to around 50% in the case of Cascais. In the metropolitan area of Porto, meanwhile, these revenues represent around 24% of the total in Gondomar, while in Vila Nova de Gaia they represent around 40%.

Our outlook for the Portuguese housing market in 2023 anticipates a slight correction in home prices and a shaper adjustment in the case of the number of sale transactions. In this context, IMT tax revenues may decline in 2023, but we estimate that they will remain above pre-pandemic levels. Therefore, all other factors being equal, it does not seem that this will be a problem for the financing of the municipalities.

Vânia Duarte

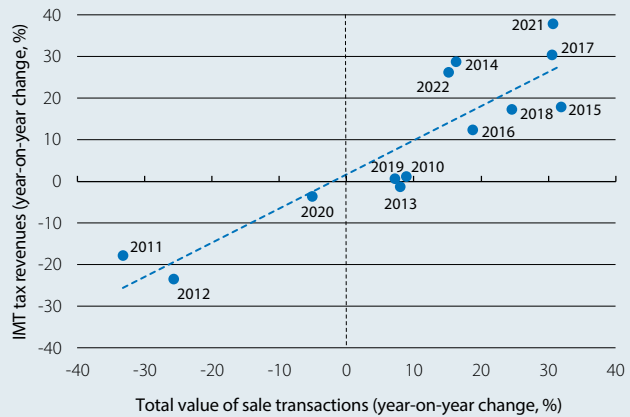
### Portugal: IMT and IMI tax revenues

Proportion of municipal tax revenues (%)



**Notes:** IMT tax is a municipal tax on property transfers, while IMI tax equates to a tax on real estate assets. \* The figure for 2022 is preliminary.  
**Source:** CaixaBank Research, based on data from the DGO.

### Portugal: relationship between IMT tax and the total value of home sales



**Note:** IMT tax is a municipal tax on property transfers.  
**Source:** CaixaBank Research, based on data from the DGO and the National Statistics Institute of Portugal.