The State Budget for 2021 is not a budget for recovery, according to the sector

Real estate professionals think the state budget for 2021 "lacks proposals and incentives" for a sector that is so crucial for the recovery of the Portuguese economy.

The real estate sector was one of the driving tools for the economic and financial recovery of Portuguese economy in the last crisis. Considering this, the sector was expecting incentive measures that promoted the dynamic of the market and strengthen the confidence of investors. Instead, the state budget only brought negative measures. However, "*the past state budgets allowed us to witness the worsening of the tax burden over the real estate sector*", says Hugo Santos Ferreira, the Executive Vice President of APPII.

Hugo Santos Ferreira spoke in the most recent APPII webinar, organized this Thursday along with Ci and VI, under the motto "The State Budget for 2021 and the remaining legislative and tax measures for real estate." He thinks the *"real estate sector is resilient, but we're fighting against the tide."*

APPII's Vice President proceeded to highlight the worsening of the tax burden for properties, namely the real estate tax and Municipal Tax on Real Estate Transfers. At a housing level, he considers that "*it was very important to contribute to an increase on private offers."*

Measures with a bigger impact

In this webinar, Pedro Fugas, Partner of EY, introduced some factors of greater emphasis from the state budget for 2021 and that impacted the real estate sector, including the transference of real estate properties between the personal and business sphere (such as the places for accommodation): according to the change predicted in the state budget, we can no longer know about any added value regarding transferences in real estate properties between the personal and business sphere.

He highlighted the acquisition of the social parts of corporations with real estate. The state budget for 2021 predicts the extension of taxation for real estate tax to the indirect transmissions of real estate owned by anonymous corporations that are not listed in the stock exchange market; the taxation for real estate tax to the indirect transmissions of real estate not listed in the stock exchange will thus obey to the same criteria followed by any other type of corporation, when certain requirements are verified.

On the other hand, the aggravated rates of real estate tax and Municipal Tax on Real Estate Transfers is extended (7,5% and 10% respectively) in situations of indirect detention by offshore corporations, for example, in the case of real estate owned by a dominated or controlled entity in a direct or indirect way, by entities living in offshore territories.

Regarding this specific measure, Pedro Fugas said that *"this is a measure that can harm the sector (…). A real brake for investment, not just in the real estate market, but in other sectors, such as the energy and transportation ones, as long as they own real* *estate."* Hugo Santos Ferreira mentioned that *"we support the fight against money laundering, but Portugal established agreements with many of these countries in order to avoid doble taxation that guarantees such transparency."*

It's also important to highlight the determination of the patrimonial tax value of lands for constructions purposes. The state budget for 2021 predicts the readjustment of the formula, applying the affectation and location coefficients, which will lead to the worsening of real estate taxation and Municipal Tax on Real Estate Transfers.

A bad budget for real estate

According to Paulo Núncio, Partner of Morais Leitão, the state budget for 2021 "*is not a take-back budget. It doesn't include tax incentive measures, at least when it comes to the real estate sector."*

Paulo Núncio says the document "*is completely outdated even before coming into force",* since it predicts an increase of 5.4% for the GDP, stating that it would achieve in 2022 the same GDP of 2019*. "Just this week, BdP predicted a more serious scenario of 3.9%",* he says. *"It looks like the Government's forecasts did not take into account the emergence of a second and third wave."*

On the other hand, Ricardo Reigada Pereira, Partner of RRP Advogados, admits that *"the resilience of the real estate market seems to be the reason why it is the most affected sector."*

José Araújo, director of the specialized credit and real estate division of Millennium BCP, mentioned another measure with the potential to significantly impact the market during the next year. He alerted to "*the new legislation that must come into force in 2021, towards European transposition, which will force those who sell, buy or have any other contact with the business to communicate it to Tax Entities*". Paulo Núncio adds that "*the players in the market must be aware and informed about an upcoming scrutiny in the operations that have some type of tax benefit."*

Pedro Seabra, the Senior Partner of Explorer Investments, mentioned the importance of long-term foreign investment in Portugal. *"It's clear to everyone that this is crucial."* However, he complains about the lack of stability, *"it's a tragedy. We can't live in a country where new rules emerge every single year."*

According to Olavo Vicente, GAREN'S CEO, "*real estate is one of the more net contributors for the State.*" He also mentions that "*The State wins in many cases, it wins more than the investor and without facing any risks."*

While commenting about the impact of some measures included in the State Budget for 2021, Ricardo Reigada Pereira says "the legislator is decreasing the spectrum of the amount of people who can invest in Portugal. In a moment when it's so important to showcase Portugal as a competitive economy, the country is becoming less attractive."