

Buying Property in Madeira

PURCHASE COSTS

PART 2 OF MADEIRA PROPERTY BUYERS' GUIDE

***T**he primary concern of most prospective property buyers is the total cost that their investment will involve. It is not sufficient to just consider the property purchase price, as this is obviously not the only cost to bear. Lack of awareness of the total required amounts can often lead to disappointments or even the inability to comply with contractual terms, with undesired consequences.*

To ensure that a prospective buyer is well prepared for the purchase procedure, we provide a description of the various costs that a purchaser will incur in relation to the property, both at the purchase stage and ongoing.

1. Taxable Value of the Property

The purchase costs and annual property taxes are, as of 2004, based on a new updated system. The fundamental novelty is the process of establishing the 'Taxable Value' of the property, which is mentioned in the descriptions of costs below. It is therefore important to learn the principals of how this value is arrived at under the new law.

The basic problem that existed was that the older properties were still being taxed on the original 'Patrimonial Values', even though these values bore no relationship to current market prices. New properties were paying much higher taxes than older, more valuable ones, thus creating an unfair system which penalized buyers of recent properties while benefiting some of the more affluent levels of society.

The new system is based on an updated evaluation process to be applied to all properties over the span of a few years, using a set of criteria aimed at harmonizing property taxable values in the territory. The result will be the 'valor patrimonial tributavel', or Taxable Value for the property. The evaluation process differs for the various types of property, namely urban (including villas, townhouses and apartments) and rural property (land).

1.1. Existing Urban Property

The evaluation of existing urban properties will take into consideration as many aspects of differentiation as possible, to establish fair comparable Taxable Values in the same areas, as well as from one area or municipality to another. The variables are basically:

- Gross construction area;
- Adjacent area not under construction;
- A value per square meter including land;
- Location;

- Quality and comfort levels of property;
- Characteristics of surrounding areas;
- Specific municipal zoning definitions.

1.2. Newly Built Urban Property

New urban properties are subject to a different form of evaluation to arrive at the Taxable Value. Here the Taxable Value is established by the authorities at the time of completion of construction and subsequent licensing of the property.

1.3. Rural Property

Rural (or Rustic) properties fall under yet another different system, namely on the potential annual production income of the property.² Municipal Transaction Tax (IMT)

This one-off tax, known as IMT (Imposto Municipal sobre a Transmissão Onerosa de Imóveis), was introduced in 2004 to replace the existing SISA tax system. It is payable whenever possession of a property is deemed to have changed hands, which usually occurs on the date of signing of the Escritura (Title Transfer).

The amount payable is a function of the Taxable Value or the transaction price, whichever is higher. Usually the purchase price is the higher of the two, so we will refer to this amount in the details below.

2.1. IMT Rate

The tax rate applicable is dependent on the type of property in question. An approximate form of calculation follows:

- Urban property for residential use (villas & apartments) - ranges from 0% to a maximum of 6% of Taxable Value or the transaction price, whichever is higher, using a sliding scale which changes annually. The table below gives the current formula for calculating the IMI tax payable on these properties.

Purchase Price	Tax Calculation
Up to €100,000	Exempt
€100,000 to €137,500	(Price x 2%) - €2,000
€137,500 to €187,500	(Price x 5%) - €6,125
€187,500 to €312,500	(Price x 7%) - €9,875
€312,500 to €625,000	(Price x 8%) - €13,000
Greater than €625,000	Price x 6%

- Urban properties not destined for residential use, such as plots of land for construction, office spaces and other commercial property - taxed at the rate of 6.5% of purchase price.
- Rural (rustic) property # taxed at the rate of 5% of purchase price.
- Urban land plot - 10% of purchase price.
- If the purchaser is domiciled in 'tax haven' territories, the rate is fixed without exemption, at 15% of the purchase price.

3. Notary Fees

These are the fees payable at the Public Notary for drawing up and witnessing the signing of the Escritura (Title Transfer), and are due on the date of the signing. The total fee is made up of two parts, namely the actual Notary fee, and a Stamp Duty on the transaction. If you are purchasing the property with a mortgage, the mortgage contract with the Bank is also formalized before the Notary and another fee is payable. There are also some small extra costs related to the number of copies of the document you request, etc.

- Notary Fee: Fixed value of €175 regardless of the type of property.
- Mortgage Escritura Fee: Fixed value of €142 (only if you are buying with a mortgage).
- Stamp Duty: 0.8% of purchase price.
- Extras: Usually does not exceed €50.

4. Lawyer's Fees

Vary according to value of property and complexity of transaction. These fees range from 1% to 3% of the purchase price and are normally payable in two parts, one at the beginning of the transaction, and the remainder upon completion. The lawyer can also handle connection of utilities, etc. when the transaction is complete.

5. Registration

The final step in the procedure is to register the purchase with the Land Registry Office (Conservatória do Registo Predial) of the area in which the property is located, and at the Tax Office (Repartição de Finanças).

The registration with the tax office will serve to establish your annual property rates/taxes, which are based on the property's 'Taxable Value' (see section below).

The costs are as follows:

- Registration of purchase: Fixed value of €125.
- Registration of mortgage: Fixed value of €135 (only if you are buying with a mortgage).

6. Municipal Property Tax (IMI)

This annual municipal tax, known as IMI (Imposto Municipal sobre Imóveis), was introduced in 2004 to replace the existing municipal annual tax system, which was obsolete and in many aspects, unfair.

The applicable tax rate is defined (and may be adjusted annually) by the City Council, according to a set of limits depending on the type of property concerned. There is an exception, however, in cases of ownership by foreign persons or companies domiciled in 'tax havens'. Here a more punitive rate is applied, in view of the potential tax evasion on sale of such properties by means of share transfers.

The rates are:

- Urban property (existing) - between 0.4% and 0.8% of Taxable Value
- Urban property (new) - between 0.2% and 0.5% of Taxable Value
- Rural property # set at 0.8% of Taxable Value
- Properties owned by persons or companies domiciled in foreign 'tax havens' - set at 5% of Taxable Value

The payment of the IMI tax is due during the year following that for which it applies. It is payable as follows:

- If the tax amount is less than €10, no payment is due.
- If the amount is greater than €250, it may be paid in two installments, in April and September.
- If the amount is less than €250, it is due in April.

7. Banking and Transfer of Funds

The best way to effect any payments is to open an account with a local bank when you first decide to go ahead with a purchase. This is a very simple procedure, and only nominal amounts are necessary

to open the account initially. Many local banks have offices in other European capitals. All use corresponding banks in most countries.

As non-residents, you have the option to open either a normal or an offshore account. The offshore option allows you tax-free interest on fixed deposits, as well as multi-currency accounts.

The transfer of funds is then simplified. You can request a SWIFT transfer from your bank (in your country) to your local account, and money should arrive in a few days. This obviously assumes that your own country does not have exchange controls.

Most banks now have an Internet Banking facility, which is really convenient. From anywhere in the world, you can consult your account, order money transfers, make payments, etc. This is especially convenient for payment of utilities and services when you have completed the transaction. Another way to make the payments is to use your lawyer's client account.

8. Wills

To avoid undue complications with international probates, a local will should be filed for the property owned in Portugal. This is a very simple procedure, and is handled by the lawyer.

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