



LOCAL Policies for GREEN Energy – LOCAL4GREEN

Priority Axis 2: Fostering low-carbon strategies and energy efficiency in specific MED territories: cities, islands and remote areas

Specific Objective 2.2: To increase the share of renewable local energy sources in energy mix strategies and plans in specific MED territories

NATIONAL HANDBOOK ON GREEN LOCAL FISCAL POLICY MODELS

Portugal

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1. Introduction

1.1. General information about the Project

The Project LOCAL4GREEN, financed under Interreg MED Programme, supports local authorities to define and implement local fiscal policies, innovative and intended to promote renewable energy sources in the municipalities in all sectors (public, private, households), mainly in the framework of the SEAPs (Sustainable Energy Action Plans submitted under the 2020 Covenant) and SECAPs (Sustainable Energy and Climate Action Plans to be submitted under the 2030 Covenant) adopted by the signatories of the Covenant of Mayors.

This project addresses the Priority Axis 2: Fostering low-carbon strategies and energy efficiency in specific MED territories: cities, islands and remote areas, and the Specific Objective 2.2: To increase the share of renewable local energy sources in energy mix strategies and plans in specific MED territories: rural areas and islands. In these kinds of territories, where local authorities have economical and technical constraints, renewable energy sources promotion plans should prioritize collaboration and active roles for public and private sectors.

The project has been implementing a pilot experience in local authorities of 9 countries/regions of the MED area (Spain, Portugal, Italia, Cyprus, Malta, Greece, Slovenia, Albania, Croatia), where local fiscal policies play a crucial role in order to raise the share of renewable energy sources.

This project pilot includes the participative design, implementation, monitoring and evaluation of local fiscal policies to promote renewable energy sources.

In addition, the project will facilitate capitalization of the best practices and application in other municipalities, at national and transnational levels, since models of green local fiscal policy will be elaborated and disseminated as well as technical support will be provided. In this way, the project will provide to local authorities with fiscal policy models to be included in their own strategies and plans.

The activities planned for this project are listed below:

- Elaboration of a participatory methodology to prepare green, local tax policies to promote renewable energy sources;
- Implementation of a web platform for access to public data on the impact of the project;
- Design and implementation of local fiscal policies to promote renewable energy sources;
- Development of tools to transfer local fiscal policies to promote renewable energy sources;

- Implementation of a regional plan for the transferability of local green tax policies;
- Implementation of an international transferability plan for green fiscal policies.

Once concluded the phases of designing, implementation and monitoring of the fiscal policies as well as the evaluation of the pilot municipalities and the fiscal policies, each partner has to elaborate a national handbook on green local fiscal policy models.

The present document is the national handbook of the Portuguese partner, the University of Algarve, through the CRIA, Division of Entrepreneurship and Technology Transfer. The national handbook will be used by MUSOL foundation to prepare an international handbook on green local fiscal policy models.

The handbook is not meant to be authoritative nor exhaustive in terms of the duties and tasks that need to be performed by the partners, but rather to provide an overview of the most common tasks and challenges in the work of the Portuguese partner and hopefully to achieve the objective of communicating and sharing the experience and good practice with all European regions.

1.2. Duration

The project has a duration of 36 months, from 1st November 2016 till 31st October 2019.

1.3. Co-financing

The LOCAL4GREEN project is related to the implementation of green policies and, in particular, green taxation in municipalities of Europe for the financing and wider promotion of RES systems on their territory.

The project has a total eligible budget of 2,013,423.15 €. The co-financing rate is 85%, so the contribution of Interreg MED Programme to the project is 1,711,409.70 €.

The co-financing comes from the European Regional Development Fund, except in the case of Albania, that comes from funds of the Instrument for Pre-Accession Assistance.

1.4. Partners

The project is being implemented in 9 countries/regions of the MED area: Albania, Croatia, Cyprus, Greece, Italia, Malta, Portugal, Slovenia and Spain. The project partners are (figure 1):

- Valencian Federation of Municipalities and Provinces (VFMP), Lead Partner, and MUSOL Foundation (MUSOL), from Spain.
- Malta Intelligent Energy Management, MIEMA, from Malta.
- North-West Croatia Regional Energy Agency, REGEA, from Croatia.
- Development Agency of Eastern Thessaloniki's Local Authorities, Centre for the Development of Human Resources and the Support of Local Economy (ANATOLIKI S.A), from Greece.
- National Association of the Italian Municipalities – Lazio (ANCI LAZIO), from Italy.
- Building and Civil Engineering Institute ZRMK (GI ZRMK), from Slovenia.
- Cyprus Energy Agency (CEA), from Cyprus.
- University of Algarve (UAlg), from Portugal.
- Association of Albanian Municipalities (AAM), from Albania.



Figure 1 LOCAL4GREEN partners

The LOCAL4GREEN project also has associated partners, namely:

- Gozo Development Agency – Gozo Regional Committee (GDA) – Malta;
- Municipality of Kamnik – Slovenia;
- Local Energy Agency of Gorjenska – Slovenia;
- Municipality of Kocevje – Slovenia;
- Regional Agency of Energy and Environment of the Algarve (AREAL) – Portugal;
- Municipality of Loulé – Portugal;
- Municipality of Faro – Portugal;
- Interdepartmental Centre for Research and Dissemination of Renewable Energy – University of Tuscia (CIRDER) – Italy;
- Municipality of Formello – Italy;
- Municipality of Olevano Romano – Italy;
- Business Innovation Centre of Valencia – Spain;
- Community Council of Lythrodontas - Cyprus;
- Nicosia Municipality – Cyprus;
- Aradippou Municipality – Cyprus;
- Municipality of Thermi – Greece;
- Ribera Consortium (RIBERA) – Spain.

1.5. National Handbook on green local fiscal policy models

The National Handbook on green local fiscal policy models corresponds to a summary document of the work that has been developed by the Portuguese partner with the municipalities of its MED area. The project is thus being developed in close collaboration with the 16 municipalities that are part of the Algarve region.

The National Handbook on green local fiscal policy models intends to summarize the green local fiscal policies that were designed with the municipalities, and respective implementation proposal. The main sources of information for the elaboration of the national handbook were the evaluation reports of the pilot fiscal policies as well as information provided by the municipalities in the context of presentation and discussion meetings of the evaluation reports.

The national handbooks of each project partner will be also compiled in an international handbook, to be elaborated by the project leader, in order to support other following municipalities in implementing innovative local fiscal policies that aim to promote renewable energy sources.

The objectives of the national handbook on green local fiscal policy models are:

- Outline policy models transferrable at a national level, based on pilots' experiences and best practices.
- Provide national decision makers with all information (legal, economical, technical, etc.) needed to Implement the green local fiscal policy models in other municipalities.
- Provide the project with best practices on green local fiscal policies to be included in an international handbook and transferred at international level.

In order to achieve its objectives, the national handbook on green local fiscal policy models has the following target groups:

- Local authorities' employees and decision makers;
- Consultants specialized in public management;
- National and regional authorities' decision makers;

Other stakeholders interested in advocacy for renewable energy sources in Local Authorities.

2. Algarve, the Portuguese MED region

Algarve is the MED region of Portugal. With a total area of 4,995 square kilometres, the Algarve is the southernmost region of Portugal.

Occupying 5.4% of the total area of the national territory, this region borders Alentejo to the north, to the east it is separated from the Spanish Community of Andalusia by the Guadiana River and the west by the Atlantic Ocean.

In spite of being a small region, the Algarve occupies approximately $\frac{1}{4}$ of the coastline of the Portugal mainland. The quality and diversity of its natural resources, generally well preserved, are recognized internationally. The city of Faro is the capital of the region.

The Algarve region is divided into 16 Municipalities (Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, São Brás de Alportel, Silves, Tavira, Vila do Bispo and Vila Real de Santo António).



Figure 2 - Municipalities of Algarve region.

The LOCAL4GREEN project has as Portuguese associated partners the Municipality of Loulé, the Municipality of Faro and the Regional Agency of Energy and Environment of the Algarve. In addition, all municipalities in the Algarve region have been invited to participate in this project.

2.1. Municipalities of Algarve

Albufeira

Albufeira is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. It is the seat of a municipality with 140,66 km² area¹, limited to west by the municipality of Silves, in the northeast and east of Loulé and to the south of a wide coast in the Atlantic Ocean.

The municipality of Albufeira has about and 40.357 inhabitants¹ and a density of 286,9 hab/km²¹, subdivided into 4 parishes: Albufeira e Olhos de Água, Ferreiras, Guia e Paderne.

Alcoutim

Alcoutim is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. It is the seat of a municipality with 575,36 km² area¹, limited to the north by the municipality of Mértola, to the east by Spain (Andalusian municipalities of El Granado, Sanlúcar de Gadiana and San Silvestre de Guzmán), to the southeast by Castro Marim, to the southwest by Tavira and to the west by Loulé and Almodôvar.

The municipality of Alcoutim has about and 2.482 inhabitants¹ and a density of 4,3 hab/km²¹, subdivided into 4 parishes: Giões, Martim Longo, União das freguesias de Alcoutim e Pereiro and Vaqueiros.

Aljezur

Aljezur is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. It is the seat of a municipality with 323,5 km² area¹, limited to the north by the municipality of Odemira, to

¹ Source: Statistics of Portugal, 2015.

the east by Monchique, to the southeast by Lagos, to the southwest by Vila do Bispo and to the west has an extensive coast with the Atlantic Ocean. The northwest boundary, with the municipality of Odemira, is marked by the Ribeira de Seixe. The coast of the municipality is part of the Natural Park of Southwest Alentejo and Costa Vicentina.

The municipality of Aljezur has about and 5.615 inhabitants¹ and a density of 17,4 hab/km²¹, subdivided into 4 parishes: Aljezur, Bordeira, Odeceixe and Rogil.

Castro Marim

Castro Marim is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 300,84 km² area¹, limited to the north and northwest by the municipality of Alcoutim, to the east by Spain, to the southeast by Vila Real de Santo António (main territory), to the south by the Atlantic Ocean, to the south-west by the parish of Vila Nova de Cacela (exclave of Vila Real de Santo António) and to the west by Tavira.

The municipality of Castro Marim has about and 6.450 inhabitants¹ and a density of 21,40 hab/km²¹ in 2015, subdivided into 4 parishes: Altura, Azinhal, Castro Marim and Odeleite.

Faro

Faro is a Portuguese city, capital of the District of Faro, the region, sub-region of the Algarve. The municipality are 202,57 km² area¹, limited to the north and west by the municipality of São Brás de Alportel, to the east by Olhão, to the west by Loulé and to the south coast of the Atlantic Ocean.

The municipality of Faro has about and 61.019 inhabitants¹ and a density of 301,2 hab/km²¹, subdivided into 4 parishes: Montenegro, Santa Bárbara de Nexe, União das freguesias de Conceição e Estoi and União das freguesias de Faro (Sé e São Pedro).

Lagoa

Lagoa is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 88,25 km² area¹, limited to the north and east by the municipality of Silves, to the west by Portimão and to the south has coast in the Atlantic Ocean.

The municipality of Lagoa has about and 22.787 inhabitants¹ and a density of 258,2 hab/km²¹, subdivided into 4 parishes: Estômbar e Parchal, Ferragudo, Lagoa e Carvoeiro e Porches.

Lagos

Lagos is a Portuguese city, of the District of Faro, the region, sub-region of the Algarve. The municipality are 212,99 km² area¹, limited to the north by Monchique, to the east by Portimão, to the west by Vila do Bispo, to the northwest by Aljezur, and to the south by the Atlantic Ocean.

The municipality of Lagos has about and 30.778 inhabitants¹ and a density of 144,5 hab/km² ¹, subdivided into 4 parishes: Bensafrim e Barão de São João, São Gonçalo de Lagos, Luz e Odiáxere.

Loulé

Loulé is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 763,67 km² area¹, limited to the north by the municipality of Almodôvar, to the northeast by Alcoutim and Tavira, to the east by São Brás de Alportel, to the southeast by Faro, to the southwest by Albufeira, to the west by Silves and to the south has coastline in the Atlantic Ocean.

The municipality of Loulé has about and 69.453 inhabitants¹ and a density of 90,9 hab/km² ¹, subdivided into 9 parishes: Almancil, Alte, Ameixial, Boliqueime, Loulé (São Clemente), Loulé (São Sebastião), Quarteira, Salir and União de freguesias de Querença, Tôr e Benafim.

Monchique

Monchique is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 395,30 km² area¹, limited to the north by the municipality of Odemira, on the east by Silves, on the south by Portimão, on the southwest by Lagos and on the west by Aljezur.

The municipality of Monchique has about and 5.476 inhabitants¹ and a density of 13,9 hab/km² ¹, subdivided into 3 parishes: Alferce, Marmeleite and Monchique.

Olhão

Olhão is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 130,86 km² area¹, limited to the north by the municipality of São Brás de Alportel, to the north and east by Tavira, to the west by Faro and to the southeast has coastline in the Atlantic Ocean.

The municipality of Monchique has about and 45.253 inhabitants¹ and a density of 345,8 hab/km² ¹, subdivided into 4 parishes: Moncarapacho e Fusetas, Olhão, Pechão e Quelfes.

Portimão

Portimão is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 182,06 km² area¹, limited to the north by the municipality of Monchique, to the east by Silves and Lagoa and to the west by Lagos; to the south, it has coastlines in the Atlantic Ocean.

The municipality of Portimão has about and 55.439 inhabitants¹ and a density of 304,5 hab/km² ¹, subdivided into 3 parishes: Alvor, Mexilhoeira Grande e Portimão.

São Brás de Alportel

São Brás de Alportel is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 153,37 km² area¹, limited to the north and east by the municipality of Tavira, to the southeast by Olhão, to the south by Faro and to the west by Loulé.

The municipality of São Brás de Alportel has about and 10.575 inhabitants¹ and a density of 69,0 hab/km² ¹ in 2015, subdivided into 1 parish: São Brás de Alportel.

Silves

Silves is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 680,06 km² area¹, limited to the north by the municipality of Ourique, northeast by Almodôvar, east by Loulé, southeast by Albufeira, southwest by Lagoa, west by Portimão and Monchique and northwest by Odemira and to the south by the Atlantic coast.

The municipality of Silves has about and 36.547 inhabitants¹ and a density of 53,7 hab/km² ¹, subdivided into 6 parishes: Armação de Pêra, São Bartolomeu de Messines, São Marcos da Serra, Silves, União das freguesias de Alcantarilha e Pêra and União das freguesias de Algoz e Tunes.

Tavira

Tavira is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 606,97 km² area¹, limited to the north by the municipality of Alcoutim, to the east by Castro Marim and by the western part of the county of Vila Real de Santo António, to the southwest by Olhão, to the west by São Brás de Alportel, to the northwest by Loulé and to the south by the coast in the ocean Atlantic.

The municipality of Tavira has about and 25.415 inhabitants¹ and a density of 41,9 hab/km²¹, subdivided into 6 parishes: Cachopo, Conceição e Cabanas de Tavira (união de Conceição e Cabanas de Tavira), Luz de Tavira e Santo Estêvão (união de Luz de Tavira e Santo Estêvão), Santa Catarina da Fonte do Bispo, Santa Luzia, Tavira (união de Santa Maria e Santiago).

Vila do Bispo

Vila do Bispo is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 179,06 km² area¹, limited to the north by the municipality of Aljezur, to the northeast by Lagos and to the south and west has coastline in the Atlantic Ocean.

The municipality of Vila do Bispo has about and 5.206 inhabitants¹ and a density of 29,1 hab/km²¹, subdivided into 4 parishes: Barão de São Miguel, Budens, Sagres and Vila do Bispo e Raposeira.

Vila Real de Santo António

Vila Real de Santo António is a municipality located in the district of Faro, in the southern region of Algarve, in Portugal. The municipality are 61,25 km² area¹. It is one of the few municipalities of Portugal territorially discontinuous, dividing in a western portion, the parish of Vila Nova de Cacela, and an eastern portion, where the city and Monte Gordo is located. The eastern part is limited to the north and west by the municipality of Castro Marim, to the east by the Guadiana River, which defines the border with Spain, municipality of Ayamonte, and to the south has coastline in the Atlantic Ocean. The western part is limited to the north and east by Castro Marim, the west by Tavira and the south has coastline in the Atlantic Ocean.

The municipality of Vila Real de Santo António has about and 19.077 inhabitants¹ and a density of 311,5 hab/km²¹, subdivided into 3 parishes: Gordo, Vila Nova de Cacela and Vila Real de Santo António.

3. National regulations regarding the local fiscal policies

The Portuguese tax system, in the normative domain, is based on a set of state and local taxes, direct and indirect. The most usual classification of this set is that which takes into account the economic nature of the basis on which taxes are levied. In this respect, taxes on income, taxes on wealth and taxes on expenditure are distinguished. Social security contributions are usually added to them.

This chapter presents the main rules of the Portuguese tax system, considering the changes introduced by the State Budget Law for 2018 (Lei Nr. 114/2017), as well as subsequent legislative changes to the main taxes of the Portuguese tax system.

3.1. National taxes

3.1.1. Value added tax (VAT)

The Valued Added Tax is a general tax on the consumption of goods and services that is levied at all stages of the economic circuit, from the importer or the producer up to the final consumer. Despite its «multistage» nature, VAT is deprived of cumulative effects to the extent that each business operator situated in a previous stage in relation to the final consumer has, as a general rule, the right to deduction on his behalf or the right to refund of VAT shifted at a previous stage.

The Value Added Tax (VAT) is in force in Portugal since 1st January 1986, its legal regime being based on the Council Directive 77/388/EEC of 17 May 1977 (usually referred to as the «Sixth Directive») that establishes the common system of valued added tax in force in the Member States of the European Union (EU).

3.1.2. Stamp Duty

Stamp Duty is levied on any deeds, contracts, documents, securities, books, papers, and other events comprised in its General Schedule, attached to Stamp Duty Code, including the transfer of goods carried out free of charge.

3.1.3. Special Taxes and Excise Duties

An excise tax is an indirect tax on the sale of a particular good or service, in line with the EU Directives on this matter. These specific excise duties are levied on the related products in the manufacturing, processing or import phases and applicable throughout the Portuguese territory.

Vehicle tax (ISV)

The ISV is an internal tax which is levied on the following vehicles, manufactured, assembled, admitted or imported in the new state or used, and which are required to be registered in Portugal: passenger cars; mixed-use motor vehicles; light motor vehicles, closed box or boxless; passenger cars; motorhomes; motorcycles; tricycles and quadricycles.

Tax on alcohol and alcoholic beverages (IABA) and sugar-sweetened beverages

It concerns beer, wines, other fermented beverages, intermediate products and spirit drinks, as well as ethyl alcohol and sugar-sweetened beverages.

Oil and energy products tax (ISP)

It covers oil, energetic products and any other products used as fuel or carburant in any type of non-stationary engine.

It is levied on the other hydrocarbons, with the exception of the peat and natural gas, destined to be used, sold or to be consumed in use as fuel, being considered as such the use of a product, through combustion.

Excise duties on tobacco

It concerns manufactured tobacco intended for consumption throughout the national territory, including cigars and cigarillos, cigarettes and smoking tobaccos, including fine cut tobaccos intended to the rolling of cigarettes and other.

Specific provisions exist to allow Portugal to apply a reduced rate up to 50% less than the required overall minimum excise duty on cigarettes consumed in the most remote regions of the Azores and Madeira.

Lightweight plastic bags contribution

Single-use plastic bags in Portugal used to be handed out for free in every supermarket. In February 2015 a green tax was imposed on lightweight plastic bags with a thickness less than or equal to 50 microns that have handles. This environmental tax aims to influence the behaviour of consumers.

The tax has come to achieve the intended effect, since the use of disposable plastic bags has decreased substantially.

Special tax on gambling and special tax on online gambling

It concerns games whose outcome is variable because they depend exclusively or fundamentally on luck, such as casino games, poker, bingo and sports betting. This tax is levied on the gross revenue of the exploring entity.

3.2. Municipal Taxes²

The local authorities are entitled to define reductions, exemptions or other modifications on Municipal Taxes.

3.2.1. Municipal Tax on Real Property (IMI)

The municipal tax on real property (IMI) is levied on the taxable net-worth value (TNW) of real property classified as rural or urban property situated within the Portuguese territory being the tax revenue from property of the municipality where such property is located.

The taxable person is the owner, the usufructuary, the building lease holder or the person entitled to the use or fruition of the immovable property on the 31st December of the year to which the tax relates.

Each municipality determines, on an annual basis, the applicable IMI rate within range defined by central government. Municipalities can fix reduced rates.

Table 1 Municipal Property Tax rates.

Property	Rates
Urban property	0,3 to 0,45%
Rural property	0,8%
Property owned by residents in offshores (except individuals)	7,5%

² Sources: Portuguese Tributary and Customs Authority and Agency for Investment and Foreign Trade of Portugal.

3.2.2. Municipal Tax on Real Estate Transfer (IMT)

The IMT is levied on the transfer for consideration of ownership rights or parts thereof on real estate (immovable property) situated in the Portuguese territory, regardless of how such transfer is carried out. It is due on the purchase price or on the property tax value, whichever is higher.

Property tax value is computed according to the rules foreseen in the Municipal Property Tax Code and Municipalities can fix reduced rates.

Table 2 Municipal Tax on Real Estate Transfer rates.

Property	Rates
Rural property	5%
Other urban properties and other acquisitions for consideration	6,5%
The acquirer is a tax resident in an offshores (except individuals)	10%

3.2.3. Construction, Installations and Works Tax

Tax charged by the municipalities for carrying out operations inherent to urbanization and construction, such as issuance of permits, construction, maintenance and reinforcement of urban infrastructure, among others, in accordance with the Municipal Regulation of Fees related to the Urban Activities and Related Operations in force. Municipalities can fix a reduced rates or exemptions.

3.2.4. Municipal tourist tax

The Municipal Tourist Tax is charged by touristic and local accommodation establishments to their guests. The revenues, duly specified, are channelled to municipal (or supramunicipal) projects with impact on the tourism sector (or in the region), according to previously approved regulations.

The application of this rate is decided by the municipalities. Each municipality must approve, in the municipal assembly, its tax regulations and define the conditions of application: minimum age, maximum number of nights for which the tax will be charged, value of the tax, destination of revenues, among others.

In the particular case of the Algarve region, this rate is not yet applied, and it is being analysed by each municipality the possibility of being implemented. Since it is a municipal decision, it is possible to implement it only by some municipalities in the region and with different conditions of application.

3.3. Other municipal tariffs/fees ³

The local authorities are entitled to define reductions, exemptions or other modifications on Municipal Tariffs/Fees.

3.3.1. Subsoil occupation fee (TOS)

Subsoil occupation fee is the fee charged by the municipalities resulting from the occupation of the subsoil by the natural gas distribution networks.

According to the Council of Ministers Resolution 98/2008, which approved the Concession Agreements for the Distribution of Natural Gas, the costs with the TOS are borne by the natural gas consumers of each municipality. The value is due by all consumers ³ regardless of the marketer with whom they maintain their supply contract.

3.3.2. Municipal Fee for Rights of Way

Municipal Fee for Rights of Way is the fee charged by the municipalities resulting from the passage through the subsoil of telephone cables.

³ Sources: Portuguese Tributary and Customs Authority and Agency for Investment and Foreign Trade of Portugal.

3.3.3. Water Resources Fee (TRH)

The Water Resources Fee (Taxa de Recursos Hídricos – TRH) is an economic and financial instrument that aims to compensate the benefits resulting from the private use of public water resources, the environmental costs associated with the activities that may cause a significant impact in water resources, as well as the administrative costs related to the planning, management, control, and the guarantee of the quantity and quality of water resources” (Decree-Law 97/2008 of 11 June). Municipalities can fix a reduced rates or exemptions.

3.3.4. Waste management and sanitation fees

Waste management and sanitation fees are charged by the municipalities to offset costs of maintenance and operation of the public drainage network of domestic waste water and costs associated with waste management.

In Portugal, the Waste Management Fee (TGR) has been in force since 2007 and was created by the General Regime of Waste Management published by Decree-Law 178/2006, of September 5 (Article 58). Changes were made to Law no. 64-A / 2008, dated December 31, with Decree-Law no. 73/2011, of June 17 and more recently with publication Law no. 82-D / 2014 of December 31 ("Green Taxation").

The TGR aims to contribute to improving the behaviour of economic operators and final consumers in order to reduce waste production and its more efficient management through the internalisation by waste and consumer producers of the environmental costs associated with them and to stimulate compliance with national waste management objectives. Municipalities can fix a reduced rates or exemptions.

3.3.5. Audiovisual contribution fee

The audiovisual contribution is an extra charge on the electricity bill paid to finance the public service broadcasting and television. But not all consumers are required to pay. The law establishes exemptions for very low consumptions.

In Portugal, the contribution for visual audio was implemented in 2003. This contribution was created by Law no. 30/2003, of August 22 and modified by Decree-Law no. 169-A / 2005, of October 3, which approved the financing model for public service broadcasting and television⁴

⁴ Source: *Regulatory Entity of Energy Services*.

3.4. Joint Taxes⁵

The local authorities are entitled to define reductions, exemptions or other modifications on Joint Taxes.

3.4.1. Personal income tax (IRS)

Personal income tax is charged on the total income earned by individuals considered resident in Portugal for tax purposes, including income earned outside Portugal. In the case of individuals not resident in Portugal, PIT is charged solely on the income earned in Portugal, which is generally subject to the special and withholding tax rates set out in the PIT.

The Personal income tax (PIT) is in Portugal since 1st January 1989 and its legal regime being based on the Portuguese Personal Income Tax Code, updated as of January 2015 according to the Portuguese Personal Income Tax Reform, as well as updated according to the 2018 State Budget Law.

Residents in Portugal for tax purposes are taxed on their worldwide income at progressive rates varying from 14.5% to 48% for 2018.

For the purpose of applying the tax rate, the taxable income is divided by two if the taxpayers are married and not judicially separated, as well as in the case of *de facto* marriages, whatever the circumstances, should they opt for joint taxation.

Special rates apply to capital gains and investment income.

The IRS is levied on the annual value of the income of a natural person, after the corresponding deductions and rebates have been made.

The IRS is:

- Direct: Immediately affects the income and is assigned directly to a person (taxpayer).
- Worldwide: It applies to the total income of residents in Portugal, regardless of where they are obtained, as well as non-residents by income obtained in Portugal.
- Staff: It takes into account the economic and social situation of the taxpayer and his or her household. For example, tax calculation is affected by marital status, number of dependents, assets, degree of disability (if any), among other factors.

⁵ Sources: Portuguese Tributary and Customs Authority and Agency for Investment and Foreign Trade of Portugal.

- Periodic: It has an annual nature, since it affects the value of the income obtained between January 1 and December 31, after the corresponding deductions and rebates have been made.
- Declarative: It is determined on the basis of the information contained in the income tax return - technically referred to as the Model Statement 3 - that each taxpayer is required to deliver annually.
- Progressive (by steps): The higher the taxable income, the higher the tax rate, but only up to a certain level (as shown in the table "Tax calculation"). That is, whoever wins the most, pays a higher tax rate.

3.4.2. Corporate income tax (IRC)

Corporate tax (CIT) is a tax levied on profits derived by both resident and non-resident entities. Companies with their seat or effective management centre in Portugal are subject to CIT on all of their income earned in any part of the world. The tax is calculated on the basis of the company's accounting result, and this may be corrected in accordance with the rules set out in the CIT Code.

Resident companies in Portugal are taxed on their worldwide income. There is an optional regime to exclude from taxation the profits and losses allocated to a foreign permanent establishment (PE) of a Portuguese company. The regime applies provided that:

- the profit allocated to that PE is subject to and not exempt from a tax foreseen in Article 2 of the EU Parent/Subsidiary Directive (Council Directive 2011/96/EU), or a tax similar to the Portuguese IRC where the legal rate is not lower than 60% of the standard IRC rate, and
- the PE is not located in a black-listed jurisdiction. The regime is not applicable to the profit allocated to the foreign PE up to the amount of the losses attributable to that PE that have been taken into account by the Portuguese taxpayer when computing the respective taxable income of the previous five tax years (12 tax years in case of small and medium-sized enterprises [SMEs]). This is an optional regime that must cover, at least, all the PEs located in the same jurisdiction, and is mandatory for a minimum three-year period.

IRC is also applicable to Portugal-source income attributable to a PE of a non-resident company in Portugal. Special withholding tax (WHT) rates apply to income generated in Portugal that is attributable to non-residents without a PE in Portugal.

A flat IRC rate of 21% applies on the global amount of taxable income realised by resident companies for tax purposes in the Portugal mainland or in the Autonomous Region of Madeira (also applicable to Portuguese PEs of foreign entities).

A reduced IRC rate of 17% (16% in case of the Autonomous Region of Madeira) applies to SMEs on the first EUR 15,000 of taxable income (the standard IRC rate shall apply on the excess). Additionally, SMEs that are located in Portuguese inland regions benefit from a rate of 12.5% on the first EUR 15,000 of the taxable amount, also being subject to the standard IRC rate on the excess. In both cases, reference is made to the concept of micro, small, and medium-sized companies as foreseen in the EU Commission Recommendation 2003/361, concerning the definition of micro, small, and medium-sized enterprises.

Entities that do not carry out a commercial, industrial, or agricultural activity as their main activity are subject to a 21% IRC rate on the global amount of their taxable income.

A lower IRC rate of 16.8% applies to companies that are tax resident in the Autonomous Region of the Azores, including PEs of foreign entities registered therein. The normal rate of IRC for resident companies that have a commercial, industrial or agricultural activity as a main activity or for permanent establishments of non-resident companies that carry out these activities is 21%.

Taxable persons who qualify as SMEs, under the applicable legislation, receive a reduced rate of 17% on the first € 15,000 of taxable income. However, the application of the rate reduction is subject to the de minimis rules on Community aid.

Municipal Surtax (Derrama Municipal)

In addition to corporate income tax, municipalities may levy a Municipal Surtax (“Derrama”). The rate of the Municipal Surtax may go up to 1,5% - reduced rates may apply to companies with a turnover of less than € 150,000, with reference to the previous tax year. An exemption may also apply to companies that carry out a specific activity or that have been recently incorporated and create new jobs.

The Municipal Surtax is levied on the taxable income of the year, prior to the deduction of any available carry forward tax losses.

The Municipal Surtax is assessed and paid when filing the IRC return.

State Surtax (Derrama Estadual)

The state surtax is levied on resident taxpayers carrying on commercial, industrial, or agricultural activity and by non-residents with a PE in Portugal.

A state surtax (Derrama Estadual) applies (prior to the deduction of any available carry-forward tax losses) at the following rates:

- 3% applicable to the taxable profit exceeding EUR 1.5 million and up to EUR 7.5 million.
- 5% applicable to the taxable profit exceeding EUR 7.5 million and up to EUR 35 million.
- 9% applicable to the taxable profit exceeding EUR 35 million.

3.5. Overview of Municipal Budgets

An overview of the contribution of taxes, tariffs and fees to the budget of the Algarve region Municipalities it is given below.

Table 3⁶ shows that Municipal Real Estate Tax and municipal taxes/charges of construction and land development are significant sources of local funding.

⁶ Sources: Statistics of Portugal and municipal budgets.

Table 3 Contribution of taxes, tariffs and fees to the budget of the Algarve region Municipalities in 2016.

	Total municipal revenues [k€]	Total municipal taxes, tariffs/fees [k€]	Municipal Real Estate Tax [k€]	Vehicle circulation Tax [k€]	Municipal Property Transfer Tax [k€]	Water supply rate [k€]	Waste water management rate [k€]	Waste management rate [k€]	Municipal taxes/charges of construction and land development [k€]
Albufeira	78.341	39.774	22.497	1.321	12.676	11.489	6.397	6.013	65
Alcoutim	7.504	407	166	40	63	130	64	36	9
Aljezur	9.722	2.928	1.714	128	1.076	703	0	377	50
Castro Marim	12.319	4.280	3.186	135	1.389	1.131	677	488	90
Faro	39.096	24.016	14.113	1.933	4.735	0	0	0	529
Lagoa	35.676	17.811	9.120	676	9.251	4.016	2.555	2.306	366
Lagos	824	11.071	12.809	5	1.072	632	824	11.071	632
Loulé	112.092	70.944	34.201	2.268	29.601	3.768	3.123	2.711	397
Monchique	9.204	1.131	555	103	345	224	5	0	7
Olhão	26.364	12.463	6.344	1.000	4.782	0	0	0	92
Portimão	82.671	47.178	23.450	1.425	6.326	0	0	0	-
São Brás de Alportel	3.471	1.763	1.763	923	847	3	563	52	52
Silves	33.662	13.813	6.915	855	4.439	0	890	1.446	1.459
Tavira	27.513	15.517	7.512	667	6.337	9	0	0	618
Vila do Bispo	9.902	2.887	1.718	140	1.041	1.183	638	284	65
Vila Real de Santo António	24.852	12.185	7.832	413	1.879	20	1	1.692	311

3.6. Overview of taxes, tariffs and fees managed by local authorities

In Portugal, the local authorities manage the following taxes and tariffs/fees:

1. Municipal Real Estate Tax
2. Municipal Property Transfer Tax
3. Municipal participation rate in the IRS
4. Municipal participation rate in the IRC
5. Municipal fee for rights of way
6. Subsoil occupation rate
7. Audiovisual contribution
8. Water resources Rate
9. Waste management rate
10. Municipal taxes/charges of construction and land development

The prioritisation matrix presented in the table 4 shows the capacity of the municipalities to intervene in the different sectors, through each tax, tariff or fee.

Table 4 Capacity of the municipalities to intervene in the different sectors, through each tax, tariff or fee (legal criteria)

Sector	Taxes, tariffs and fees	Capacity of the municipality to intervene through taxation (3 - high, 2 - medium, 1 - low, 0 - none)
Households - Residential sector	Municipal Real Estate Tax	3
	Water resources Rate	2
	Municipal participation rate in the IRS	0
	Audiovisual contribution	0
	Waste management rate	0
	Municipal taxes/charges of construction and land development	3
Commercial sector	Municipal Real Estate Tax	3
	Municipal participation rate in the IRC	3
	Municipal fee for rights of way	0
	Subsoil occupation rate	0
	Audio-visual contribution	0
	Water resources Rate	0
	Waste management rate	0
Municipal taxes/charges of construction and land development	3	
Personal and commercial vehicles	Special taxes on motor vehicles	0

Most of municipal taxes and tariffs/fees are managed by the local authorities, so Municipalities are entitled to modify them, fixing reduced rates or exemptions. Just *municipal fee for rights of way*, *subsoil occupation rate* and *audiovisual contribution* require authorization of the central government for modifications. However, such fees/tariffs charge specific economic sectors where isn't relevant to promote renewable energy sources.

4. Local fiscal policies considered as best practices

The green tax policies presented refer to the analysis carried out for the municipalities of the Algarve region, previously presented in the Preliminary Study, and the collection of specific information, made with each municipality.

The work carried out in the context of the elaboration of the Preliminary Studies of each municipality involved not only the analysis of the potential of renewable energy production, but also the potential of acting in the level of the various municipal taxes.

The collection of information from each municipality made it possible to identify pre-existing strategies and actions, more relevant intervention areas, among other relevant elements in the context of the implementation of fiscal policies to promote renewable energy sources in municipalities.

4.1. Description of the Green Fiscal Policies proposed

4.1.1. Reduction on Construction Licensing Fees for new buildings in the residential and commercial and services subsectors using renewable energy sources

The licensing of building and demolition works is subject to the payment of fees, in accordance with the Municipal Regulation of Fees related to the Urban Activities and Related Operations in force.

The proposed measure is Reduction of 50% on Construction Licensing Fees for new buildings in the residential and commercial and services subsectors using renewable energy sources.

This measure is part of the general system of local authority fees (Law no. 53-E / 2006, of 29 September) and Financial System of Local Authorities and Inter-Municipal Entities (Law no. 73/2013, of 3 of September).

Scope

1. Exclusive application to new constructions and the rehabilitation of buildings totally vacant and in very bad state of conservation;

2. Exclusive application to urban properties, residential use or commerce and services;
3. Exclusive application to the installation of renewable production systems for self-consumption:
 - 3.1. Photovoltaic panels for self-consumption with a power of 1,5 kWp or more, per accommodation or shop;
 - 3.2. Biomass-fed central heating systems;
 - 3.3. Geothermal heat pumps for air conditioning.

Requirements

- Presentation of the candidate's personal documentation;
- Certificate of non-existence of debts to the Tax and Customs Authority;
- Certificate of non-existence of debts to Social Security;
- Fulfilment of application form⁷, with presentation of technical project of the renewable production system and respective descriptive document

Note: The implementation of the renewable production system submitted in application may be subject to supervision by the municipal services. Failure to implement it may result in the payment of the entire tax value.

Application timeline

The application can be made at any time before the end of the period of execution of the construction works in question.

The reduction of 50% in the rates of construction works is applicable only after approval and upon presentation of the declaration of acceptance of the application.

⁷ The evaluation of the application, regarding the fulfilment of the requirements necessary to obtain the reduction of rates of construction works, must be carried out by the municipal services within 10 working days, with the issuance by them of the declaration of acceptance of the application.

Complementarity

1. This rate may be increased by 10% for new constructions with recirculating water system.

Requirements

Fulfilment of the application form with technical project presentation and full description of the water recirculation system.

Justification

The implementation of the measure is intended to promote renewable energy sources in new buildings for housing or commerce and services.

The reduction of rates of construction works for new constructions with renewable production systems will have as main result the increase of renewable endogenous production in the municipality, also reflected in the level of a reduction of municipal revenues from the application of taxes on construction works.

The table below presents the main results of the impact study of the implementation of the proposed measure, both in terms of the increase in renewable endogenous production and in the reduction of municipal revenues from the application of construction charges.

Table 5 Estimated impacts of the implementation of the measure "Reduction of rates of construction works for new constructions with renewable production systems" in the municipalities of the Algarve Region

	Licensed buildings (year 2016) [Nr.]	Buildings covered by the measure [Nr.]	Municipal revenues from the construction tax (year 2016) [€]	Reduction of municipal revenue [€]	Private investment in renewable energy production [€]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Simple Payback [years]
Albufeira	26	6	64.552	4.500	18.000	10.080	2.479	7,3
Alcoutim	4	1	9.332	1.150	3.000	1.600	393	7,6
Aljezur	24	5	49.764	4.500	15.000	7.833	1.926	7,8
Castro Marim	23	3	90.387	4.950	9.000	5.060	1.244	7,2
Faro	46	4	528.686	12.200	12.000	6.640	1.633	7,3
Lagoa	81	11	365.604	17.050	33.000	18.993	4.670	7,1
Lagos	138	74	632.459	44.400	222.000	126.787	31.177	7,1
Loulé	72	19	397.246	31.350	57.000	31.920	7.849	7,3
Monchique	9	1	6.895	400	3.000	1.520	374	8,0
Olhão	54	10	91.782	7.000	30.000	16.600	4.082	7,3
Portimão	34	10	s.d.	13.000	30.000	17.133	4.213	7,1

	Licensed buildings (year 2016) [Nr.]	Buildings covered by the measure [Nr.]	Municipal revenues from the construction tax (year 2016) [€]	Reduction of municipal revenue [€]	Private investment in renewable energy production [€]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Simple Payback [years]
São Brás de Alportel	17	4	51.676	6.000	12.000	6.587	1.620	7,4
Silves	114	82	1.459.444	49.200	246.000	135.027	33.203	7,4
Tavira	127	19	617.973	24.700	57.000	32.427	7.974	7,1
Vila do Bispo	36	2	65.332	1.800	6.000	3.480	856	7,0
Vila Real de Santo António	47	25	310.560	23.750	75.000	42.833	10.533	7,1

Considerations

The study considered as reference the municipal revenues from the application of construction tax⁸ and the number of buildings licensed by the municipal councils for construction, by municipality⁹.

For the estimation of buildings covered by the measure, it was considered that 25% of the new constructions (residential or commercial spaces and services) licensed by each municipality will be covered by the measure. In the particular case of the municipalities of Alcoutim and Monchique, with a smaller number of buildings licensed in 2016, it was considered that at least 1 (one) new construction (residential or commercial spaces and services) will be covered by the measure.

The estimate of revenue reduction for the municipalities of the Algarve was made assuming the proposed reduction of 50% in the tax of construction works for the number of new constructions (residential or spaces of commerce and services) covered by the measure. The reduction of revenue was calculated using the average value of construction charges levied by buildings in buildings licensed by city councils. In the particular case of the municipality of Portimão, it was not possible to identify the revenue from the construction charges in the year 2016, for which the average value of construction charges charged by buildings in licensed buildings in the Algarve Region was considered.

The estimation of private investment in renewable energy production was made considering the installation of photovoltaic modules with power 1,5 kWp in the buildings covered by the measure and the standard costs of photovoltaic systems without storage¹⁰.

The increase in the production of renewable energy was estimated considering the installation of photovoltaic modules with power 1,5 kWp in the buildings covered by the measure and using the PVGIS reference tool. It was still considered the use of only two thirds of the energy produced, considering photovoltaic systems without storage.

The average energy bill reduction in the buildings covered by the measure was estimated considering the electricity price in 2016, for an average domestic consumer, of 0,2429 €/kWh⁹.

⁸ Source: websites of municipalities, 2016

⁹ Source: Statistics of Portugal, 2016

¹⁰ Source: General Direction of Energy and Geology, 2016

4.1.2. Reduction on Municipal Real Estate Tax for buildings in the residential subsector using renewable energy systems

The Municipal Real Estate Tax (IMI) is charged on the tributary value of the rustic and urban buildings located in the Portuguese territory. It is due by the owner or usufructuary of the building on December 31 of the year to which it respects. The tax asset value is determined by the type of building.

The IMI is a direct revenue of the Portuguese municipalities. The financial and administrative management is carried out integrally by the TA - Tax and Customs Authority.

Pursuant to article 112 of the IMI Code, the Municipal Real Estate Tax is set annually by the Municipalities, in relation to the location of the buildings.

The tax for urban buildings already assessed under the IMI Code range from 0.45% to 0.30%, and for rural buildings the applicable rate is 0.8%, always taking as reference the valuation value of the property.

The proposed measure is **Reduction of 50% on Municipal Real Estate Tax** for buildings in the **residential subsector** using renewable energy systems for electricity production for self-consumption.

This measure is part of the general system of local authority fees (Law no. 53-E / 2006, of 29 September) and Financial System of Local Authorities and Inter-Municipal Entities (Law no. 73/2013, of 3 of September).

Scope

1. Exclusive application to urban and rural buildings already evaluated under the IMI Code;
2. Exclusive application to urban properties for residential use, with minimum annual electricity consumption of 1.000 kWh;
3. Exclusive application to the installation of renewable production systems for self-consumption:
 - 3.1. Photovoltaic panels for self-consumption with a power of 1,5 kWp or more, per accommodation or shop;
 - 3.2. Biomass-fed central heating systems;
 - 3.3. Geothermal heat pumps for air conditioning.

Requirements

- Presentation of the candidate's personal documentation;
- Certificate of non-existence of debts to the Tax and Customs Authority;
- Certificate of non-existence of debts to Social Security;
- Presentation of updated Urban Building Book.
- Fulfilment of application form;
- Presentation of electric energy bills corresponding to the year prior to the application date or the last twelve (12) invoices;
- Presentation of at least 2 budget proposals for the renewable production system to be submitted, issued by different suppliers;
- Presentation of invoice, proof of payment and receipt, proof of purchase and installation of the renewable production system to apply.

Note: The implementation of the renewable production system submitted in application may be subject to supervision by the municipal services. Failure to implement it may result in the payment of the entire tax value.

Application timeline

The application can be made at any time after the installation of the renewable production system, which must be in operation.

The 30% reduction in the IMI tax is applicable only after approval.

Complementarity

1. This rate may be increased by 10% for constructions with an energy efficiency class equal to or greater than A.

Requirements

Fulfilment of the application form with the presentation of an energy certificate proving an energy efficiency class equal to or greater than A.

Justification

The implementation of the measure is intended to promote renewable energy sources in existing residential buildings.

The reduction of the IMI tax for existing residential buildings with renewable production systems will have as main result the increase of renewable endogenous production in the municipality, also reflecting the level of a reduction of municipal income from IMI.

The main results of the impact study of the implementation of the proposed measure are presented in the table below, both in terms of the increase in endogenous renewable production and in the reduction of municipal revenues from IMI.

Table 6 Estimated impacts of the implementation of the measure "Reduction of IMI rates for fractions of housing with renewable production systems" in the municipalities of the Algarve Region

	IMI rate (year 2018) [%]	Municipal revenues from IMI tax [€]	Dwellings (year 2016) [Nr.]	Buildings covered by the measure [Nr.]	Reduction of municipal revenue [€]	Private investment in renewable energy production [€]	PV production by dwellings [kWh/year/dw ellings]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Simple Payback [years]
Albufeira	0,35	1.713.550	5.952	149	12.869	447.000	2.350	234.601	57.688	7,7
Alcoutim	0,40	3.186.118	8.436	211	23.907	633.000	2.530	357.666	87.950	7,2
Aljezur	0,45	14.113.472	38.066	952	105.890	2.856.000	2.490	1.588.222	390.544	7,3
Castro Marim	0,36	9.119.662	19.720	493	68.397	1.479.000	2.590	855.503	210.368	7,0
Faro	0,35	12.808.637	27.308	683	96.107	2.049.000	2.570	1.176.058	289.193	7,1
Lagoa	0,40	6.344.185	26.464	662	47.610	1.986.000	2.490	1.104.415	271.576	7,3
Lagos	0,45	23.450.000	47.529	1.188	175.842	3.564.000	2.570	2.045.617	503.017	7,1
Loulé	0,42	1.763.437	6.667	167	13.252	501.000	2.470	276.368	67.959	7,4
Monchique	0,38	7.511.887	25.542	639	56.379	1.917.000	2.560	1.096.013	269.510	7,1
Olhão	0,40	1.718.084	6.086	152	12.873	456.000	2.610	265.802	65.361	7,0
Portimão	0,45	7.832.052	20.405	510	58.726	1.530.000	2.570	878.169	215.942	7,1
São Brás de Alportel	0,35	1.713.550	5.952	149	12.869	447.000	2.350	234.601	57.688	7,7
Silves	0,40	3.186.118	8.436	211	23.907	633.000	2.530	357.666	87.950	7,2

	IMI rate (year 2018) [%]	Municipal revenues from IMI tax [€]	Dwellings (year 2016) [Nr.]	Buildings covered by the measure [Nr.]	Reduction of municipal revenue [€]	Private investment in renewable energy production [€]	PV production by dwellings [kWh/year/dw ellings]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Simple Payback [years]
Tavira	0,45	14.113.472	38.066	952	105.890	2.856.000	2.490	1.588.222	390.544	7,3
Vila do Bispo	0,36	9.119.662	19.720	493	68.397	1.479.000	2.590	855.503	210.368	7,0
Vila Real de Santo António	0,35	12.808.637	27.308	683	96.107	2.049.000	2.570	1.176.058	289.193	7,1

Considerations

The study considered municipal income from IMI¹¹ and the number of classic households¹². Municipalities that already apply the minimum IMI rate were not included.

For the estimation of fractions covered by the measure it was considered that 2.5% of the classic households will be covered by the measure.

The estimate of revenue reduction for the municipalities of the Algarve was made assuming the proposed reduction of 30% in the IMI rates of the fractions covered by the measure. The revenue reduction was calculated using the average IMI rate charged for classic household.

The estimation of private investment in renewable energy production was made considering the installation of photovoltaic modules with power 1,5 kWp in the fractions covered by the measure and the standard costs of photovoltaic systems without storage¹³.

The increase in the production of renewable energy was estimated considering the installation of photovoltaic modules with power 1,5 kWp in the fractions covered by the measure and using the PVGIS reference tool. It was still considered the use of only two thirds of the energy produced, considering photovoltaic systems without storage.

The average energy bill reduction in the fractions covered by the measure was estimated considering the electricity price in 2016, for an average domestic consumer, of 0,2429 € / kWh¹³.

4.1.3. Reduction on Corporate Tax in the commercial subsector using renewable energy systems

Resident companies are subject to Portuguese Corporate Income Tax (IRC) on their worldwide income. Resident companies are those which have their head office, or place of effective management, in Portugal.

Non-resident companies with a permanent establishment in Portugal are liable for IRC on the income attributable to that permanent establishment. A non-resident company with no permanent establishment in Portugal is taxed on the following types of income sourced in Portugal: real estate, capital gains, dividends, services, interest and royalties.

¹¹ Source: Municipal Real Estate Tax, 2016

¹² Source: Statistics of Portugal, 2016

¹³ Source: General Direction of Energy and Geology, 2016

The normal rate of IRC for resident companies that carry out a commercial, industrial or agricultural activity, or for permanent establishments of non-resident companies that carry out these activities, is 21%, in addition, to the majority of municipalities, the municipal surtax at the maximum rate of 1,5%, on taxable income.

The municipal surtax rate is the responsibility of the municipalities and their source of revenue. The amount applied may vary up to 1,5% on taxable income, the applicable rate to be defined by the municipality.

The proposed measure is **Reduction of 50% on Corporate Tax** for buildings in the commercial and services subsectors using renewable energy systems for electricity production for self-consumption.

Scope

1. Exclusive application to commercial and service companies based in fractions of commercial properties and services, namely legal persons under private law, except for all entities with CAE 01 to 33, with a minimum annual electricity consumption of 1.000 kWh;
2. Exclusive application to the installation of renewable production systems:
 - 2.1. Photovoltaic panels for self-consumption with a power of 1,5 kWp or more, per fraction;
 - 2.2. Biomass-fed central heating systems;
 - 2.3. Geothermal heat pumps for air conditioning.

Requirements

- Presentation of the candidate's personal documentation;
- Certificate of non-existence of debts to the Tax and Customs Authority;
- Certificate of non-existence of debts to Social Security;
- Presentation of updated Urban Building Book. If there is a usufruct or lease contract, it must also be sent. In the case of lease, the authorization of the owner, duly signed, must also be sent;
- Fulfilment of application form;
- Presentation of electric energy bills corresponding to the calendar year prior to the application date or the last twelve (12) invoices;

- Presentation of at least 2 budget proposals for the renewable production system to be submitted, issued by different suppliers;
- Presentation of invoice, proof of payment and receipt, proof of purchase and installation of the renewable production system to apply.

Note: The implementation of the renewable production system submitted in application may be subject to supervision by the municipal services. Failure to implement it may result in the payment of the entire tax value.

Application timeline

The application can be made at any time after the installation of the renewable production system, which must be in operation.

The 30% reduction in the IRC tax is applicable only after approval.

Justification

The implementation of the measure is intended to promote renewable energy sources in existing buildings in the commercial and services subsectors.

The table below presents the main results of the impact study of the implementation of the proposed measure at the level of the reduction of municipal revenues from the IRC.

Table 7 Estimated impacts of the implementation of the measure "Reduction of municipal IRC rates (municipal surtax) for buildings with renewable production systems" in the municipalities of the Algarve Region

	IRC rate (year 2018) [%]	Municipal revenue from IRC tax (year 2016) [€]	Reduction of municipal revenue [€]
Albufeira	1,50	1.137.000	45.480
Alcoutim	0,00	0	0
Aljezur	0,00	0	0
Castro Marim	0,00	0	0
Faro	1,50	2.085.000	83.400
Lagoa	0,00	0	0
Lagos	1,00	428.000	17.120

	IRC rate (year 2018) [%]	Municipal revenue from IRC tax (year 2016) [€]	Reduction of municipal revenue [€]
Loulé	1,50	1.495.000	59.800
Monchique	0,00	0	0
Olhão	0,00	0	0
Portimão	1,50	883.000	35.320
S. Brás de Alportel	0,00	0	0
Silves	0,00	0	0
Tavira	1,50	48.000	1.920
Vila do Bispo	0,10	0	7.983
Vila Real de Santo António	1,50	213.000	8.520

Considerations

The study considered municipal income from IRC as a reference (source: INE, year 2016).

The estimate of revenue reduction for the municipalities of the Algarve was made assuming the proposed reduction of 50% in IRC rates and that 8% of municipal revenues from the IRC will be covered by the measure. In the case of the municipality of Vila do Bispo, with municipal revenues coming from the IRC in the year 2016 and the IRC rate in 2018 equal to 0,10%, the average income from the IRC in the Algarve region was considered.

4.1.4. Reserved and/or free parking in municipal car parks for electric vehicles

The decarbonisation of the transport sector is one of the main environmental priorities, since it constitutes one of the most polluting sectors and which causes more CO₂ emissions.

It is therefore fundamental to act at the level of the transport sector and many municipalities are increasingly available to embrace electric mobility, promoting the adoption of sustainable behaviours and more efficient technologies, valuing those who already do it.

The municipality is not able to act on the IUC (Single Traffic Tax), which corresponds to the annual tax levied on ownership of a motor vehicle (not on traffic), paid until the vehicle is slaughtered, whose values are updated every year in January. It is the tax that replaces the old

"car stamp" and should not be confused with the ISV, which is a tax paid only when the vehicle is first registered in Portugal.

However, as the transport sector is one of the largest emitters of CO₂, it is suggested the **adoption of exemption from payment for electric vehicles, in municipal car parks.**

In municipalities where there are no paid parking areas, it is proposed the reservation of, at least, two parking spaces for owners of electric vehicles. Those spaces must be properly marked.

Scope

1. Exclusive application to 100% electric vehicles or plug-in hybrids.

Requirements

- The 100% electric vehicles will have to display, on the windscreen, the electric vehicle identification decal¹⁴, issued by the IMT (Institute of Mobility and Transport).

4.1.5. Partial contribution of the tourist tax for renewable generation

The municipal tourist tax for overnight stays is charged by tourist and local accommodation establishments to their guests. The settlement and collection of the overnight rate is the responsibility of the legal persons who exploit the tourist and local accommodation establishments. The payment of the fee is made at the time of check-in or check-out, in tourist and local accommodation establishments.

In the Algarve region, the introduction of a tourist tax was decided and approved by the Algarve Intermunicipal Community (AMAL) on September 21, 2019, although the measure is still subject to approval by the Municipal Assembly, in each municipality of the region.

For the municipalities of the Algarve, except for the municipality of Vila Real de Santo António, it is proposed to apply a fee of 1,50 € (one euro and fifty cents) per night and per guest, aged

¹⁴ The identification badge is formalized in Decree-Law 90/2014 of June 11, n. Article 4 (4): "4 - Electric vehicles shall affix, for the purpose of traffic on public roads or the like, the distinguishing sign which appears in Annex I to this Decree-Law, which forms an integral part thereof, which is the identifying element at national level for the purpose of identifying and using positive discrimination mechanisms for electric vehicles, particularly for parking purposes. "

over 12 years, which is accommodated in tourist and local accommodation establishments, up to the limit of 4 nights per stay, between March and October.

In the municipality of Vila Real de Santo António, the future tourist tax will have the maximum value of 1,00 € (one euro) per night, being exempt from payment under 10 years old (minors between 11 and 13 years old pay 50%). It will be applied in all types of accommodation, up to a maximum of 7 nights.

The proposed measure aims at **channelling 10% of the value of the revenues from the application of the tourist tax** to improvements in public lighting, by replacing the current ones for LED with an added photovoltaic system, thus promoting renewable production in the municipality.

Justification

The implementation of the measure intends to promote the channelling of 10% of the value of the revenues from the application of the tourist tax.

The table below presents the main results of the study of the impact of the implementation of the proposed measure, both on the increase of the endogenous renewable production and on the reduction of municipal revenues from the tourist tax.

Table 8 Estimated impacts of the implementation of the measure "Partial contribution of the tourist tax for renewable generation" in the municipalities of the Algarve Region

	Overnight stays [Nr.]	Average stay [days]	Tourist Tax Applicable [€]	Revenue from Tourist Tax [€]	Increase in IP investment capacity [€]	Lamps to be intervened [Nr.]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Payback simples [years]
Albufeira	8.395.439	5,1	1,5	2.194.886	219.489	439	132.754	18.586	11,8
Alcoutim	1.330	2,0	1,5	443	44	0	0	0	0,0
Aljezur	65.634	2,2	1,5	21.878	2.188	5	1.409	197	11,1
Castro Marim	182.300	4,5	1,5	54.015	5.401	11	3.346	468	11,5
Faro	516.150	1,9	1,5	172.050	17.205	35	10.458	1.464	11,8
Lagoa	1.649.321	4,7	1,5	467.892	46.789	94	29.187	4.086	11,5
Lagos	1.223.138	4,4	1,5	370.648	37.065	75	23.153	3.241	11,4
Loulé	2.683.095	4,1	1,5	872.551	87.255	175	53.078	7.431	11,7
Monchique	90.536	2,9	1,5	30.179	3.018	7	1.915	268	11,3
Olhão	159.351	3,1	1,5	53.117	5.312	11	3.287	460	11,5
Portimão	2.511.614	4,5	1,5	744.182	74.418	149	45.862	6.421	11,6
S. Brás de Alportel	6.868	2,5	1,5	2.289	229	0	0	0	0,0
Silves	376.099	4,9	1,5	102.340	10.234	21	6.237	873	11,7
Tavira	732.342	4,0	1,5	244.114	24.411	49	15.038	2.105	11,6

	Overnight stays [Nr.]	Average stay [days]	Tourist Tax Applicable [€]	Revenue from Tourist Tax [€]	Increase in IP investment capacity [€]	Lamps to be intervened [Nr.]	Increase in the production of renewable energy [kWh/year]	Average energy bill reduction [€/year]	Payback simples [years]
Vila do Bispo	394.560	3,6	1,5	131.520	13.152	27	8.456	1.184	11,1
Vila Real de Sto. António	1.219.374	4,8	1,0	812.916	81.292	163	50.318	7.045	11,5

Considerations

The estimated revenue that each municipality will receive from the application of the tourist tax was calculated based on INE data for 2017 for the number of overnight stays in hotel establishments by municipality, considering only the number of nights that are, charged and assuming that two thirds of the visitors are families (2 adults + 2 children) and that only adults are charged tourist tax.

It was considered that 10% of the value of the revenue coming from the rate would be applied in public lighting requalification works with the incorporation of photovoltaic systems with storage.

The increase in the production of renewable energy was estimated considering the installation of LED lamp luminaires (40W) associated with a photovoltaic (200W) production system with storage battery. For each municipality, an average monthly electricity production (kWh) was obtained using the reference tool *PVGIS*¹⁵ and considering the use of 90% of the energy produced.

The average energy bill reduction was estimated considering an average electricity price in 2017 of 0,14 € / kWh ¹⁶.

¹⁵ *PVGIS* Reference Tool: <http://re.jrc.ec.europa.eu/pvgis/apps4/pvest.php#>

¹⁶ Intelligent Energy Management Systems - IEMSy: <http://visit-iemsys.irradiare.com/index.php/pt/>

5. Legislative or normative barriers

The General Regime of Local Authorities (RGTA) was approved by Law no. 53-E / 2006, of December 29, and amended (second amendment) by Law no. 53-E / 2006, of December 29.

Law No. 73/2013, of September 3, establishes the Financial Regime of Local Authorities and Intermediary Entities (RFALEI).

RFALEI attributes to municipalities the power to grant tax exemptions and benefits. The municipal assembly may, through formal proposal of the city council, grant total or partial exemptions from taxes and other taxes of its own through a reasoned resolution that includes an estimate of the respective tax expense. It should be noted, however, that these tax benefits cannot be granted for more than five years, although it is possible to renew them once for an equal period of time.

Considering the high investment associated with the implementation of renewable energy sources and the relatively high return periods of investment, a longer period of granting of tax benefits would be more attractive in order to promote the implementation of a wider renewable energy source. Although renewal of these benefits is possible, this renewal may occur only once for an equal period of time and, due to changes in municipal or other political priorities, this renewal may not occur.

In addition, under the principle of tax legality, the total or partial exemptions provided for in this article may only be granted by municipalities only when there is a law that defines the terms and conditions for their attribution.

According to the RGTA, local authorities' fees are necessarily linked to the concrete provision of a local public service, the private use of public and private property of local authorities or the removal of a legal obstacle to the behaviour of individuals. The taxes of local authorities are created by regulation approved by the respective deliberative body, and the regulations must contain the following indications:

- The indication of the objective and subjective incidence base;
- Value or the formula for calculating the value of the fees to be charged;
- The economic and financial grounds relating to the value of the fees, namely direct and indirect costs, financial charges, amortizations and future investments made or to be carried out by the local authority;
- The exemptions and their rationale;
- Method of payment and other forms of termination of the tax concession allowed;
- The admissibility of payment in instalments.

The annual budgets of the local authorities can update the value of the previously established rates, according to the inflation rate. However, the change in the values of the rates according to another criterion different from the rate of inflation is affected by means of an amendment to the respective creation regulation and must contain the economic and financial rationale underlying the new value.

In addition, the executive body must submit to the deliberative body the proposed municipal budget for the following fiscal year until October 31 of each year.

The possibility of updating the rates every six months, or medium information in a timely manner, will increase the speed of implementation of the proposed initiatives, namely the design of tax benefits aimed at promoting the implementation of renewable energy sources.