

Science for Environment Policy

Portuguese tax to focus regeneration and increase transparency of development costs

A study has evaluated the Municipal Urbanisation Tax (MUT) - a specific tax for the construction, maintenance, and reinforcement of urban infrastructure - in the city of Tomar, Portugal. This is a one-time charge applied to new development through land subdivision (*Loteamento*) or individual buildings, similar to an impact fee, and has a new, simplified formula which reinforces efforts to contain urban sprawl. Other municipalities aiming to direct urban regeneration towards their brownfield sites, for example, could learn from this experience.

Urban sprawl adds to commuter congestion and affects people's quality of life as we lose open spaces that offer recreation, biodiversity and food production. Urban sprawl also contributes to high, unsustainable energy consumption rates. The EU *Territorial Agenda 2020* highlights the challenge of preventing further 'loss of biodiversity, vulnerable natural, landscape and cultural heritage' associated with development¹.

Many European municipalities compete for new investment in development by keeping land use taxes artificially low. However, this policy has led to urban sprawl and created wider burdens on municipal budgets. All Portuguese municipalities are now updating their municipal land use regulations, including the MUT, following changes to the National Law.

By calculating a new **tax structure** for Tomar, the municipality aimed to:

- Restore balance between cost and benefit of infrastructure investments
- Reinforce a national effort to contain urban sprawl
- Simplify the tax formula
- Promote a simpler concept, making the calculation more accessible to the public
- Balance public and private interests, and support equity and social justice

They found that previous formulae for calculating the tax were too complex, and revenues were far lower than actual cost of cities' infrastructure investment. Previous MUTs usually allowed construction outside urban areas. However, current approaches, such as the new formula developed for Tomar, encourage compact development within city boundaries.

The municipality of Tomar has 43,000 inhabitants. The majority are scattered in smaller settlements, with just 16,000 living in the city itself. The researchers found that many outlying buildings are single-family homes, including weekend or summer houses. This type of development has risen due to permissive rural building regulations, even after 1994, when the first municipal planning instruments were enforced.

The new system discourages building outside urban areas, by imposing much heavier tax burdens, which correspond to a long term strategy to progressively forbid building outside urban areas. But planned industrial zones, along with smaller villages where infrastructure is already in place, will have reduced taxation to encourage young people to stay and to promote job creation. Equally, the regeneration of Tomar's historic urban centre is encouraged through tax incentives.

It is too early to measure the effects of the new MUT on urban development patterns. However, the process of analysing and improving the tax formula has provided insights into problems in Portuguese land use fiscal policy. One important element of the new tax system is a spreadsheet where users can see exactly how a change in location affects costs. Reducing fees to encourage investment is a political decision, but adds a significant burden to municipal budgets. Until now, stakeholders may not have been aware of this trade-off.

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Contact:
joanaca@civil.ist.utl.pt

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