

SPEAR. POINT.

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New Housing Tax Package 2026

DECREE-LAW No. 97/2026, MAY 20

The Government has approved a set of tax relief measures aimed at boosting the housing supply, specifically by encouraging construction.

New Housing Tax Package

The Government has approved a new set of tax incentives for the construction, renovation, purchase, and rental of housing.

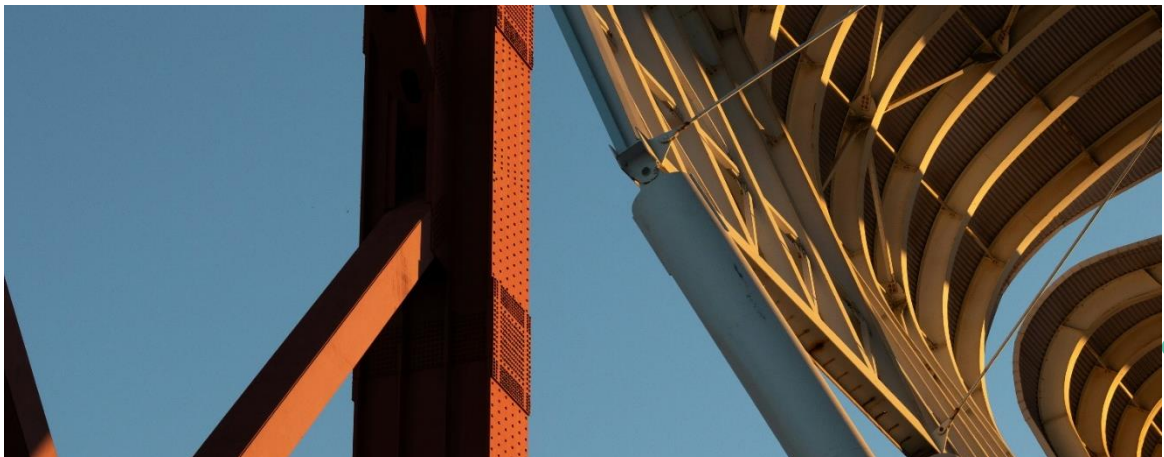
Among the main measures are:

- **New reinvestment scheme**
- **Suspension of the reinvestment period**
- **10% separate taxation on moderate rents**
- **Taxation of only 50% of certain real estate income for Corporate Income Tax (IRC) and Category B Personal Income Tax (IRS)**
- **6% VAT on certain construction and renovation projects**
- **Partial VAT Refund Scheme for the Construction of Own and Permanent Housing**
- **Tax benefits regarding Personal Income Tax (IRS), Corporate Income Tax (IRC), Real Estate Transfer Tax (IMT), and Stamp Duty;**
- **Creation of the CIA and RSAA schemes.**

The Investment Lease Agreements (CIA) and Simplified Affordable Lease (RSAA) schemes will be analyzed separately in future publications.

The measures will take effect in phases between 2026 and 2032.

We analyze the main changes below.



Key changes regarding Personal Income Tax

1) **New reinvestment scheme**

The reinvestment regime under the IRS Code has been expanded. Both residents and non-residents can now benefit from this regime regarding the sale of residential properties that do not constitute their own permanent residence. Under this new reinvestment scheme, taxpayers who reinvest the sale proceeds from residential properties — net of any loan repayment for the property sold — in new properties located in Portugal, intended for residential rental with a monthly rent not exceeding the maximum limits defined under paragraphs 2 and 3 of Article 2 of Decree-Law No. 97/2026 of May 20, a concept clarified below. The reinvestment must be made between 24 months prior to and 36 months following the date of sale. The possibility of partial reinvestment is also expressly provided for.

2) **Suspension of the reinvestment period**

Also under the reinvestment regime, a mechanism is added to suspend the 36-month reinvestment period in the event of non-compliance — due to a supervening circumstance not attributable to the taxpayer and subject to legal action — regarding the acquisition or construction of the new owner-occupied and permanent residence, thereby allowing the deferral of capital gains taxation.

3) **10% separate taxation on moderate rents**

A new Article 45-C is added to the EBF, reducing to 10% the separate tax rate applicable to the property income of residents and non-residents derived from residential lease agreements with moderate rents until December 31, 2029. Correspondingly, Article 101 of the IRS Code now provides for this same 10% rate when withholding tax is due on account of the final tax liability.

4) Regarding personal income tax deductions, the annual deduction limit for residential rent is increased to EUR 900 in 2026 and EUR 1,000 starting in 2027.

The increase in IMT for non-residents is discriminatory and may be contrary to the principle of free movement of capital set forth in the Treaty on the Functioning of the European Union.

Key changes for individuals and businesses in the EBF and IMT

5) Taxation of only 50% of certain real estate income for Corporate Income Tax (IRC) and Category B Personal Income Tax (IRS)

The new Article 45-C of the EBF also provides that real estate income derived from residential lease agreements with moderate rents until December 31, 2029, will be considered at only 50% when earned by Corporate Income Tax (IRC) taxpayers or by Personal Income Tax (IRS) taxpayers with organized accounting under Category B.

6) For non-residents, a 7.5% IMT rate is set for the purchase of residential property, unless the purchasers become residents or use the property for residential leases with moderate rents. It should be noted that this distinction may be contrary to the principle of free movement of capital provided for in the Treaty on the Functioning of the European Union.

Moderate rental and sale prices

7) Of particular importance to the legislation, the following concepts are established:

- a. Moderate rent: a monthly rent not exceeding 2,300 EUR (corresponding to 2.5 times the guaranteed minimum monthly wage for 2026), and
- b. Moderate sale price: a sale price not exceeding EUR 660,982, corresponding to the upper limit of the second bracket of Article 17(b) of the IMT Code, as amended by Law No. 73-A/2025 of December 30. There is also provision for the possibility of future updates to these amounts by ministerial order, in line with the annual rent adjustment coefficient provided for in the NRAU.

VAT on Construction/ Renovation for Residential Purposes

8) 6% VAT on certain construction and renovation projects

Item 2.42 is added to List I of the VAT Code, consisting of items 2.42.1 and 2.42.2, through which the temporary application of the reduced rate of 6% is permitted:

- a. To construction and renovation works on properties intended for owner-occupied and permanent housing (HPP) or for residential rental, provided that the sales price limits or moderate rent ceilings are respected, as provided for in paragraphs 2 and 3 of Article 2 of this Decree-Law; and
- b. Construction works relating to urban buildings for rental covered by Rental Investment Contracts (CIA).

The conditions for benefiting from budget item 2.42.1 are partially set forth in Article 10 of the Decree-Law, although the new budget item also refers to special legislation.

In the event of non-compliance with the conditions, Article 11 requires the payment of VAT to the State, with differentiated regimes and the application of compensatory interest and other penalties. Regarding this point, it is clarified that the actual allocation to HPP by the purchaser is not one of the conditions of the new provision 2.42.1.

If the property, sold for HPP, is not allocated by the purchaser for that purpose within six months from the date of acquisition, there will be no loss of the reduced VAT rate, but a 10% increase in IMT will apply to the taxable value. Exceptions apply in cases where the failure to designate the property results from exceptional circumstances, pursuant to Article 10(26) of the IRS Code.

Partial VAT Refund Scheme for the Construction of Owner-Occupied and Permanent Housing (HPP)

9) Partial VAT Refund Scheme for the Construction of Own and Permanent Housing

Annex II of the Law establishes a partial refund scheme for the amount equivalent to the VAT incurred by individuals on construction projects for HPP, outside the scope of business activities. This benefit is subject to compliance with the following conditions:

- a. (i) The property value recorded in the title deed or (ii) the purchase price of the land, plus construction costs, excluding the VAT amount, if higher than the former, may not exceed the concept of moderate sale value, as defined in paragraphs 2 and 3 of Article 2 of the Decree-Law and described above;
- b. That the VAT becomes due by December 31, 2032;
- c. That the property be allocated to HPP within 6 months of the issuance of the documentation regarding the commencement of use and remain so for a minimum period of 12 months;
- d. That the expense is properly documented and reported to the Tax Authority.

The refund corresponds to the difference between the standard rate and the reduced rate that would apply if the construction project were eligible for it.

10) The new provisions described above, as well as the new VAT refund regime, apply to construction or renovation projects related to urban development operations for which the procedural initiative begins during the period from September 25, 2025, to December 31, 2029, and for which the tax becomes due on or after January 1, 2026. Under the terms of the law, “procedural initiative” is defined as follows:

- a. In cases of works subject to licensing, the submission of the license application;
- b. In the case of works subject to prior notification, the submission of the prior notification;
- c. In the case of works exempt from prior control:
 - i. The submission of the prior opinion provided for in Article 7(2) of the RJUE, in the cases provided for in that article; or
 - ii. The submission of information regarding the commencement of work, in all other cases.

- 11) The reverse charge mechanism (self-assessment) is extended to taxable persons exempt from VAT under the provision 2.42 referred to above. Thus, in the aforementioned construction or renovation contracts, VAT is no longer paid to the State by the supplier at the time of invoicing but is instead self-assessed by the purchaser. In practice, this solution allows for a financial deferral of the timing of tax payment to the State, with a potential positive impact on the cash flow of the operators concerned.



Endnotes

This Decree-Law repeals Decree-Laws No. 68/2019 and No. 69/2019, replacing the previous Rental Support Program with the RSAA, with transitional provisions for existing municipal contracts and programs.

The changes introduced by the legislation take effect in phases. While the measures regarding IRS, EBF, and VAT are applicable as of January 1, 2026, the CIA and RSAA schemes only take effect on September 1, 2026. Some of the effects provided by the legislation extend as far as 2029 and 2032.

Decree-Law No. 97/2026, of May 20, establishes significant changes with a direct impact on taxation for both individuals and investors. It is essential that both seek appropriate legal and tax advice regarding their specific circumstances.



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