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New Incentives for Residential Rentals

CIA and RSAA Programs

Investment Rental Contracts (CIA) and Simplified Affordable Rental (RSAA) Schemes

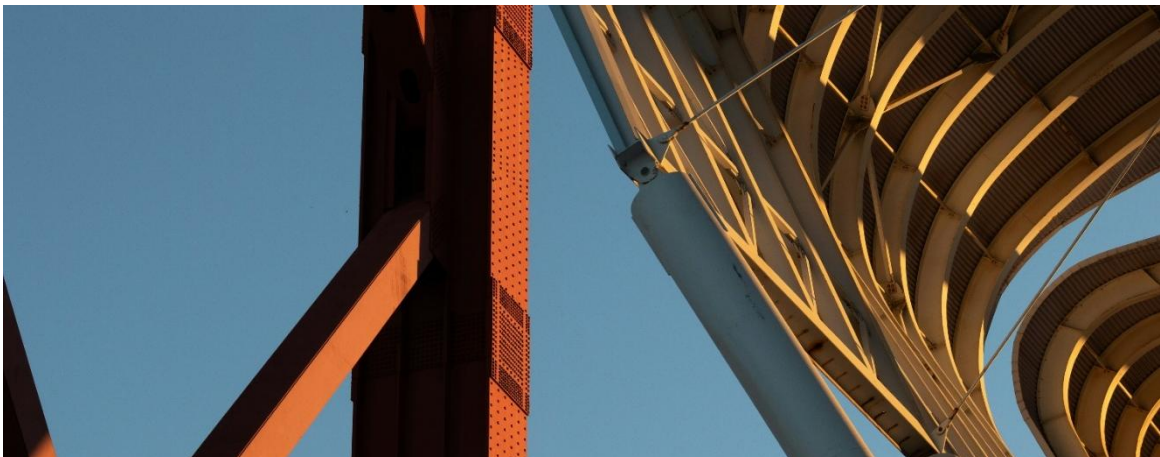
Following our SPEAR POINT No. 1 on the new housing tax package approved by Decree-Law No. 97/2026 of May 20, we now analyze in detail two of the key instruments of the legislation: the CIA and the RSAA.

In summary:

- The CIA is primarily aimed at investors capable of developing large-scale projects, offering a significant package of benefits but requiring long-term commitments, strict execution discipline, and compliance with resolution mechanisms that may result in the recovery of benefits. Here, the legislature has introduced a specific safeguard to mitigate the risk of legislative changes that could disrupt the economic and financial balance of the contract.
- The RSAA functions as a “tax statute” for lease agreements with rents below a market cap, seeking to reconcile predictability of net income for the landlord (via tax exemption) with tenant protection through rent caps and minimum lease terms, but without a specific rebalancing clause in the event of future changes.

In both cases, the cost-benefit analysis depends on each specific project (asset type, location, financing structure, time horizon, and tenant profile). It is therefore essential to evaluate, on a case-by-case basis, whether to opt for the CIA, the eligibility of contracts under the RSAA, and the aggregate impact on the net return on investment.

We analyze the two regimes below.



Lease Investment Agreements (CIA)

The CIA is a contractual framework between private investors and the State (represented by the Institute for Housing and Urban Rehabilitation, I. P., or “IHRU”) that aims to encourage construction and rehabilitation projects for rental housing through significant tax benefits and a stable legal framework.

Who is eligible, and for what types of projects?

The program applies to investments in real estate for residential rental or for subletting for residential purposes, with the following essential characteristics:

1. At least 700/1000 of the construction area of the covered buildings must be designated for residential rental (with the remainder permitted to be used for complementary or housing-compatible purposes).
2. Rents charged must comply with the “moderate rent” limits, *i.e.*, 2,325 EUR (a monthly rent not exceeding 2.5 times the minimum monthly wage for 2026, subject to adjustment).
3. Only investors who, among other requirements, possess technical and management capabilities, maintain organized accounting records, have profits not determined by indirect methods, and are in good standing with tax and social security obligations may enter into a CIA.

Form, Content, and Term of Contracts

The CIA is entered into between the investor and IHRU, I. P., pursuant to a draft approved by a joint order of the Ministries of Finance and Housing.

The contract:

1. Identifies the properties and the construction area covered.
2. Defines the applicable tax benefits.
3. Sets rent limits and the rules for adjusting them.
4. It establishes deadlines for implementation and for designating the property for rental.

The term of the contract is, as a rule, up to 25 years from the date of execution and may coincide with the term of the partnership agreement in public-private partnerships.

Main Tax Benefits

The CIA combines, in a single instrument, a wide range of benefits, some of which are subject to municipal approval:

1. IMT

Exemption from IMT on the acquisition of:

- a) land and buildings for construction or renovation intended for residential rental or rental for sublease;
- b) buildings or units already constructed for rental under the CIA.

2. Stamp Tax

Exemption from stamp tax on the transfer of the real estate in question.

3. IMI and AIMI

- a. Exemption from IMI for up to 8 years;
- b. 50% reduction in IMI for the remaining term of the CIA (subject to the limits set by the financial regulations for local governments);
- c. Full exemption from AIMI for the duration of the CIA.

4. VAT

- a. Application of the reduced rate of 6% (item 2.42.2 of List I of the CIVA) to construction/renovation contracts for properties covered by the CIA;
- b. Refund of 50% of the amount equivalent to the VAT incurred on architectural, engineering, design, and research services related to construction or renovation (excluding urban development works).

5. Taxation of alternative investment funds

A 50% reduction in the rate under item 29.2 of the TGIS, based on the proportion of assets held by alternative investment funds covered by the CIA.



The granting of IMT and IMI exemptions and IMI reductions is subject to a resolution by the municipal assembly, upon a proposal from the municipal council, which means that the effective impact of the regime will vary depending on each municipality's tax policy.

Allocation requirements, risks of losing benefits, and safeguards for investors

The regime is demanding in terms of compliance:

1. The properties covered must be subject to residential lease agreements or sublease agreements:
 - a. Within a maximum of 5 years (properties to be built or renovated) or 1 year (already built properties) after the signing of the CIA;
 - b. Contracts must remain in effect for at least 8 months per year of the CIA's term, unless there is a justified impediment.
2. The IHRU may propose termination of the CIA in the event of:
 - a. Breach of contractual conditions and obligations attributable to the investor;
 - b. Failure to comply with tax or social security obligations;
 - c. Unjustified refusal to provide information or the provision of false information.
3. Termination results in the partial loss of tax benefits already enjoyed, with payment to the AT of:
 - a. 100% of the benefits if the breach occurs within the first 10 years;
 - b. 50% if it occurs later, but before the last five years;
 - c. 30% if it occurs within the last five years, plus compensatory interest.

The contractual position in the CIA may only be transferred with authorization and by retaining all properties subject to the lease, which restricts the disposal of assets and requires advance planning of exit strategies.

Finally, the law contains a specific safeguard clause for CIA investors, under which legislative and regulatory changes that alter the system for setting and adjusting rents or any other relevant contractual regime, and that affect the economic and financial balance of contracts entered into under a CIA, entitle the investor to compensation, pursuant to Article 282 of the Public Contracts Code.



Simplified Affordable Rental Scheme (RSAA)

The RSAA replaces the former Rental Support Program (Decree-Law No. 68/2019), with the legislature's aim being to create a simpler and more automatic system for lease agreements with rents below a market cap, in exchange for a significant tax benefit: total exemption from personal income tax (IRS) and corporate income tax (IRC) on rental income.

Scope and Types of Contracts

The program applies to:

1. Lease agreements, lease-to-sublease agreements, and residential subleases of:
 - a. Urban or mixed-use buildings;
 - b. Self-contained units;
 - c. Parts of a building suitable for independent use;
 - d. Parts of a dwelling (rooms), provided that minimum requirements for autonomy, access, and ventilation are met.
2. Programs approved by municipalities and intermunicipal entities for the purpose of promoting affordable rental housing.

This covers both permanent and temporary residence (specifically for professional, educational, training, or tourism purposes), provided that the tenant has their tax residence in another municipality.

Rent caps and minimum lease terms

Leases classified as “affordable housing” must meet all of the following requirements:

1. Maximum monthly rent limit¹

The maximum monthly rent is set by property type in a joint Finance/Housing ordinance, based on 80% of the median rent in the municipality as published by INE. The rent amount is automatically adjusted using the NRAU’s annual coefficient.

2. Minimum Contract Terms

- a) Permanent residence: minimum of 3 years;
- b) Temporary residence: minimum of 3 months, renewable as long as the temporary purpose is maintained.

Tax benefit: exemption from personal income tax (IRS) and corporate income tax (IRC) on rental income

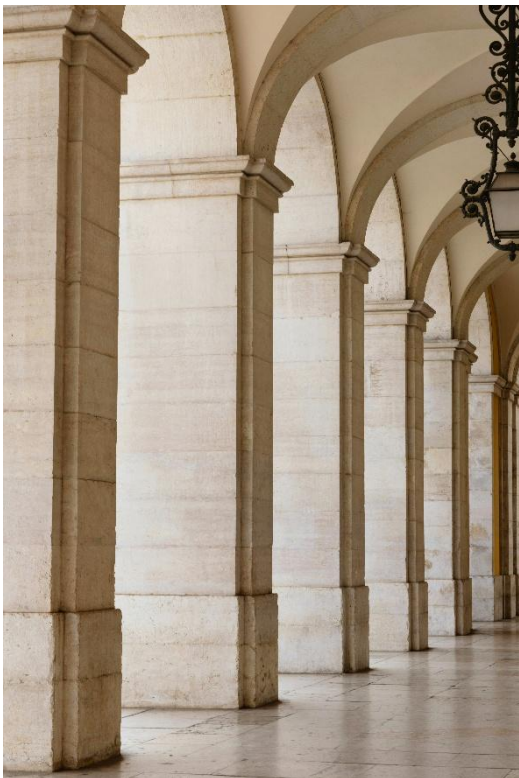
Real estate income arising from contracts that comply with the RSAA is exempt from personal income tax (IRS) and corporate income tax (IRC).

If the taxpayer opts for consolidation under the IRS, the exempt income is taken into account for marginal tax rate purposes, as exempt income subject to progressive taxation.

Applying the regime involves a simple reporting procedure:

- 1. The landlord submits the following via the IHRU platform by January 15 of the following year:
 - a. A copy of the contract;
 - b. Proof of the contract’s registration on the Finance Portal.
- 2. The IHRU notifies the Tax Authority (AT) by the end of February of the contracts that meet the

¹ These rent caps do not include the expenses provided for in Article 1078 of the Civil Code (condominium fees, utilities, etc.), which may be passed on to the tenant.



requirements, and the exemption takes effect as of the contract's execution date.

The benefit also applies to lease renewals and remains in effect in the event of a transfer of the property, provided the lease remains in force.

Noncompliance and Loss of Benefits (without a rent adjustment clause)

Failure to comply with the RSAA conditions (for example, raising the rent above the limit or shortening the contract term) results in the loss of tax benefits as of the date of non-compliance, specifically the obligation to pay the difference in tax that would have been due, plus compensatory interest.

The procedure will be conducted by the IHRU, following a prior hearing of the interested parties, and the statute of limitations on the right to a tax assessment will be suspended while the procedure is ongoing.

Unlike the CIA, the RSAA does not contain any clause regarding economic and financial rebalancing or the right to compensation in the event of future changes to the program or its benefits.

Municipal Programs and Public Affordable Rentals

The RSAA is coordinated with municipal affordable rental programs and with contracts entered into by public entities:

1. Municipal affordable rental programs that comply with the RSAA's rent limits and terms benefit from the same tax exemption for contracts included in these programs, following registration and validation by the IHRU.
2. Public entities may enter into residential lease or sublease agreements under the RSAA; these are considered "reduced rent" for the purposes of the supported rental scheme (Decree-Law No. 37/2018).
3. The RSAA also serves as a transitional mechanism between public rental schemes, specifically under the terms of Law No. 83/2019, allowing for adjustments to

the regulatory framework without an automatic loss of benefits for tenants and landlords.

Repeal of the Rental Support Program and Implementation Schedule

Decree-Law No. 97/2026 repeals Decree-Laws Nos. 68/2019 and 69/2019, replacing the Rental Support Program with the RSAA. The repeal and effective entry into force of the CIA and RSAA will take place on September 1, 2026.



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