

Tax relief measures to promote housing

Main tax measures in Law Proposal 47/XVII/1

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KEY ASPECTS

- Law Proposal 47/XVII/1 seeks to authorize the government to approve tax relief measures aimed at increasing Portugal's housing supply.
- This proposal grants the government the authority to (i) amend core tax codes and regimes, including value-added tax ("VAT"), personal income tax ("PIT"), corporate income tax ("CIT")/tax benefits statute ("TBS"), and municipal property transfer tax ("IMT"); and (ii) approve three distinct regimes:
 - (i) **Partial VAT refund:** For construction work related to primary and permanent residences
 - (ii) **Rental investment contracts ("RIC")**
 - (iii) **Simplified Affordable Rent Regime ("SARR")**
- This law proposal is subject to potential changes during the parliamentary process.





Framework

Following the [Council of Ministers meeting held on November 28](#), two legislative proposals of significant importance to the housing sector were presented to Parliament on December 2:

- [Law Proposal 47/XVII/1](#)
This proposal authorizes the government to approve tax relief measures designed to increase Portugal's housing supply.
- [Law Proposal 48/XVII/1](#)
This proposal authorizes the government to amend the legal regime for licensing urban development operations, update the legal regime on urbanization and building, and reform the legal regime for urban rehabilitation.

This publication focuses the key tax measures outlined in Law Proposal 47/XVII/1 ("**Law Proposal**").

The government has included the text of the corresponding authorized decree-law as an attachment to the Law Proposal. This decree-law outlines the measures and establishes when they will take effect. However, the decree-law will be contingent upon the prior approval of the Law Proposal, which formally grants the government legislative authorization in this area.

Legislative procedure and authorization

The Law Proposal authorizes the government to amend essential tax codes and regimes—such as VAT, PIT and CIT/TBS, and IMT—and approve three distinct regimes:

- **Partial VAT refunds for construction work related to primary permanent housing**
- **RIC**
- **SARR**

Important note

This publication is based on the text of the Law Proposal and its accompanying decree-law, as presented to Parliament on December 2, 2025. The text may undergo revisions during the parliamentary process.

Reduced VAT rate of 6% on housing construction and rehabilitation

Scope, conditions and timeframe

The decree-law attached to the **Law Proposal** introduces a **temporary reduced rate of 6%** under item 2.42 of List 1 in the VAT Code. This reduced rate applies to contracts for **constructing or rehabilitating residential properties** designated for the following purposes:

- **Sale for the purchaser's own primary and permanent residence ("PPR")**
 - Application of IMT rates to PPR purchases.
 - **Moderate sale price:** The property sale price cannot exceed **€648 022.00**, which corresponds to the upper threshold of the second bracket in the IMT table for the purchase of a building or the separate part of a building designated exclusively for PPR.



- **Timeframe for sale:** The purchase must occur within **24 months** after the issuance of start-of-use documentation under the Legal Regime on Urbanization and Building (“LRUB”).
- **Rental housing**
 - Leases must qualify for **VAT exemption**.
 - **Rent threshold:** The monthly rent may not exceed **€2,300** (2.5 times the minimum monthly salary for 2026).
 - The contracts must be reported to the Tax and Customs Authority.
 - Contracts must comply with **specific deadlines**:
 - The first rental contract must commence within **24 months** of the issuance of start-of-use documentation (LRUB).
 - The **property must be rented for at least 36 months** (consecutive or non-consecutive) **during the first five years** after the issuance of start-of-use documentation (LRUB).

Additional notes:

- The taxpayer inversion rule applies to the purchase of construction services.
- In co-ownership situations, all co-owners must allocate the property for PPR purposes.
- For horizontal properties, the reduced VAT rate applies to the part of the work allocated to units meeting the required conditions.
- Item 2.42.1 of the VAT Code expires on December 31, 2032.

Obligation to regularize VAT

When conditions for applying the reduced VAT rate cease to apply (such as failure to sell the property for PPR within the established timeframe or exceeding rent or price limits), the taxpayer must regularize the missing VAT due by substituting the periodic declaration. Applicable interest and penalties will also apply.

Effective date	Transitional provisions - Reduced VAT rate
	<p>The reduced VAT rate on real estate construction or rehabilitation contracts (and the respective regime), aimed at properties for sale at moderate prices, applies to services linked to urban development operations. The eligibility is valid for procedural initiatives that started between September 23, 2025, and December 31, 2029, provided the VAT liability arises on or after January 1, 2026.</p> <p>This reduced VAT rate will expire on December 31, 2032.</p>
	<p>A partial VAT restitution regime is also available for individuals entering into works contracts for PPR outside a business context. Requests must pertain to contracts executed during the first six months of 2026 and can be submitted from July 1, 2026.</p>



Combination with RIC (see chapter *Rental Investment Contracts*)

For **RIC** projects, construction and rehabilitation works also qualify for the **reduced VAT rate**. Also, these projects benefit from a comprehensive tax incentives package, which covers IMT, stamp duty, annual municipal property tax (“**IMI**”), additional IMI, and PIT and CIT applied to alternative investment undertakings (“**AIU**”).

To qualify, at least **70% of the construction area** must be allocated for housing rentals. Also, the project must adhere to “moderate” rent limits, as outlined in Annex I, article 2.

RIC

Framework, form and duration

An RIC is an agreement between the **investor** and the **Housing and Urban Rehabilitation Institute (“IHRU”)**, representing the state. This agreement facilitates the granting of a tax benefits package for projects involving the construction, rehabilitation or purchase of real estate for housing rental or subrental purposes. The agreement’s **term may last up to 25 years** from its commencement.

The draft contract requires approval through a joint order issued by the Finance and Housing ministers. Also, the procedures for presentation and approval will be established by an ordinance. RICs specify the real estate in question, define the construction area, and set rent thresholds classified as “moderate,” along with criteria for annual updates. The RIC regime will take effect on **June 1, 2026**.

Investment and investor eligibility conditions

For a project to qualify, the following conditions must be met:

- At least 70% of the construction area must be allocated for housing rentals. The remaining area may be allocated for supplementary or compatible uses.
- Rents for rental or subrental contract must not exceed the maximum thresholds set as “moderate monthly rent.”
- Investor requirements:
 - (i) Demonstrated technical and management capacity
 - (ii) Maintenance of organized accounting records
 - (iii) Non-determination of profit through indirect methods
 - (iv) Regularized tax and social security status
 - (v) Additional requirements to be specified in a forthcoming ordinance.

Investors must also:



- (i) identify the real estate in question;
- (ii) refrain from selling any affected real estate separately unless the contractual position is also transferred;
- (iii) provide all requested information promptly; and
- (iv) comply with all legal and contractual obligations within the established timelines (Annex I, article 2.3).

Tax benefits

- The RIC provides comprehensive tax benefits; however, some of these benefits are contingent upon municipal resolutions. The main benefits include the following:
- **IMT/stamp duty:** Full exemption on purchases of land designated for construction and buildings or units intended for housing rentals or subrentals.
- **IMI:** An exemption for up to eight years from the year of purchase (inclusive). This is followed by a 50% reduction for the remaining duration of the RIC, subject to the limits established by the Local Government Financial Regime. The exemption and reduction require approval by a municipal assembly following a proposal by the municipal council.
- **Additional IMI:** Full exemption for the entire duration of the RIC.
- **VAT on construction work:** Application of the reduced rate for construction or rehabilitation works, as specified under item 2.42.2 of List I in the VAT Code. See Chapter *Reduced VAT rate of 6% on housing construction and rehabilitation*.
- **Partial VAT refund:** A refund equaling 50% of the VAT charged on architectural services or projects and studies related to construction and rehabilitation. Refund requests must be submitted electronically and analyzed by the Portuguese tax authorities, following confirmation from IHRU.
- **Stamp duty:** A 50% reduction on the rate specified in item 29.2, based on the proportion of AIU assets allocated to affected contracts.

Note: The Law Proposal defines the “meaning and extent” of these benefits, including the need for a municipal resolution for IMI and IMT.

Deadlines for allocation to rental and minimum occupancy

- **Real estate to be built or rehabilitated:** For land or buildings purchased for construction, rental or subrental contracts must be entered into within the period specified in the RIC, not exceeding five years from the contract signing date. An extension may be granted for reasons beyond the investor’s control, subject to authorization from the IHRU.
- **Already purchased real estate:** Rental or subrental contracts must be signed within one year following the purchase.
- **Minimum annual occupancy:** The property must be rented for a minimum of eight months for each full year of the RIC. Exceptions apply if there is a justified reason for non-occupancy.

Contract stability and re-equilibrium



Legislative or regulatory changes, including adjustments to rent regimes, that disrupt the economic or financial balance of RIC contracts entitle the investor to compensation under article 282 of the Public Contracts Code.

Breach, termination and effects

The IHRU may recommend the termination of the RIC in cases of:

- (i) non-compliance with contractual or legal conditions and obligations;
- (ii) tax or contributory non-compliance; or
- (iii) refusal to provide required information.

Termination, authorized by a government order, will result in the forfeiture of tax benefits. Also, investors must repay a portion of the benefits as follows:

- 100% repayment if non-compliance occurs within the first 10 years.
- 50% repayment if it occurs after 10 years but before the final 5 years of the contract term.
- 30% repayment if it occurs within the last 5 years of the contract term.

Transfer of contractual position and burden of registration

The contractual position may be transferred if all affected real estate is transferred cumulatively and the purchaser meets the eligibility requirements. The purchaser must also agree to fulfill all conditions and obligations under the contract. However, this transfer requires authorization from the housing minister, based on a proposal by the IHRU.

The authorization constitutes an encumbrance subject to land registration, which must be executed by the IHRU. This encumbrance remains valid until the end of the contract's term.

Supervision and reporting

The IHRU monitors compliance with the support of the Portuguese tax authorities. The investor is required to submit an annual execution report, along with all necessary information, through the designated electronic platform.

SARR

Subject matter, scope and purposes

The SARR establishes the minimum requirements for classification as “**affordable rent**,” defines the respective tax regime, and provides the framework for municipal programs and contracts involving public entities.

The regimes apply to rental contracts, subrental agreements, and housing subrentals related to urban or mixed-use buildings (or specific parts or units), including portions of a residence that meet minimum autonomy standards. It also encompasses municipal affordable rental programs.

Contracts may relate to permanent residences or temporary residences for transitional purposes, provided the tenant has a tax residence in a different municipality.

The SARR will take effect on **June 1, 2026**.



Rent thresholds and minimum terms

- **Maximum monthly rent threshold:** The threshold is determined by ordinance and based on 80% of the National Statistics Institute's median rental price per square meter in the municipality where the rented property is located. It may also account for property-specific features, including energy efficiency and parking availability. **The rent threshold is automatically updated using the New Urban Rental Regime factor.**
- **Minimum terms:** The minimum contract term is three years for permanent residences and three months for temporary residences. Temporary contracts may be renewed if the purpose of the residency continues.

Tax regime

PIT and CIT exemptions: Property income derived from contracts that comply with SARR requirements qualifies for exemption from PIT and CIT. If there is an aggregation option, the exempt income is included to determine the applicable tax rate.

Procedure for eligibility: The landlord must submit a copy of the contract and proof of registration on the Tax Office website to the IHRU platform by January 15 of the year following the contract's signing. By the end of February, the IHRU will notify the Portuguese tax authorities, and the contract will automatically become subject to the tax regime from the signing date.

Tax benefits cover contract renewals and remain valid if the property is transferred, provided the contract remains active.

Non-compliance and regularization

Failure to meet the minimum rent or period thresholds results in the loss of tax benefits from the date of non-compliance. The landlord is then required to regularize the tax difference owed, along with compensatory interest.

The IHRU is responsible for verifying instances of non-compliance. This process includes granting the landlord a prior hearing. Also, the expiration term for the right to tax assessment under the General Tax Law is suspended.

Municipal programs and public affordable rentals

Municipal programs: Contracts executed under municipal programs qualify for the exemption if they comply with the rent thresholds and terms of the SARR. The municipality must report the program and contracts to the IHRU. The IHRU then verifies the program's compatibility and notifies the Portuguese tax authorities within 30 days. Once approved, the program is registered on the IHRU platform.

Public entities: Public entities may enter into affordable rental or subrental contracts outside the supported rental regime. These contracts can qualify as "reduced rent" under Decree-Law 37/2018, provided they meet the established criteria. For public SARR contracts, only the rent thresholds and minimum terms are mandatory.

Transitional regime and legal references



Contracts under the previous rental support program retain their tax effects, with the provisions of the SARR applying, subject to necessary adaptations.

Municipal programs recognized under Decree-Law 68/2019 are now reclassified as SARR programs without requiring further compatibility assessments.

From June 1, 2026, all legal references to “affordable rent” and to Decree-Law 68/2019 will be interpreted as referring to the SARR.

Other measures

- **Adaptation and improvement of the tax regime: Adjustments to the tax regime for collective investment undertakings supporting rental initiatives** are introduced at the participant or shareholder level.
- **MPTT changes for nonresidents:** A new **tax rate of 7.5%** applies to nonresidents, with exceptions granted if they become residents or allocate real estate to rentals at a “moderate” rent.
- **PIT exemption for real estate capital gains: Capital gains from real estate reinvested in residential rental properties are exempt from PIT**, provided the properties meet the “moderate” rent conditions and thresholds.
- **Tax reductions for housing rentals:** PIT is reduced through an autonomous levy of 10%, and CIT is partially considered at 50% for income generated through housing rental or subrental contracts. The reductions apply until the end of 2029.
- **Tax benefits for tenants and purchasers:** Additional tax benefits are available for tenants and purchasers of **controlled-cost housing**.

Next steps: Parliamentary procedures

The measures and regimes outlined in this document originate from a legislative proposal that remains under parliamentary review and may undergo changes before its final approval and publication.

Therefore, the information in this document reflects the proposal’s current status and requires ongoing monitoring to account for any amendments introduced during the legislative process. It is strongly recommended to follow this process closely to ensure proper application of forthcoming tax rules and benefits in housing development matters.



For additional information, please contact our **Knowledge and Innovation Group lawyers** or your regular contact person at Cuatrecasas.

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