

ANTI- INFLATION MEASURES THAT WILL AFFECT RENTALS IN 2023

ALL FINANCE MATTERS

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Anti-inflation measures and how this will affect rentals in 2023

The Portuguese Government has launched an anti-inflation package and new rules will apply to the taxation of long-term rentals in 2023, as compensation for the limited established annual rent increases.

How much was the inflation in Portugal in September?

The Portuguese Statistics Institute (INE) has stated that the inflation in September 2022 will be 9.3%. This is an increase of 0.4% compared with August 2022 and is the highest inflation rate since October 1992. In the Eurozone, the average inflation is currently 10%.

How much and when are the house rents updated?

As a rule, rents are updated annually, although there are cases in which this increase may not occur. It happens, for example, if there is an agreement between the tenant and the owner, which determines that there is no room for an increase. Even so, for leases after 1990, the most common is that this update is made every year and reflects the income update coefficient, whose value is defined by the Government based on the value of inflation. This coefficient is normally published in October each year.

What is the coefficient for 2023?

If the government would consider the inflation rate as of August 2022, like normally happens, the annual increase would be 5.43%. However, the Portuguese Government has established a limit of 2%, as a way of fighting inflation. This increase is applicable for both types of contracts: habitation and commercial.

How and when does the rent increase comes into effect?

If the rental contract allows for yearly rental updates, the landlord must inform the tenant by registered letter of the intention to increase the rent. This should be done after the publication of the law, which normally occurs each year in October and needs to be done with a minimum of 30 days' notice. The new rent should start in January.

The first rent update should only be done after 1 year of the contract.

The Government will create a tax relief, to compensate landlords for the low rent increase.

The Portuguese Government has informed that will publish a law to compensate the landlords. This compensation is only valid for contracts before 01-01-2022 and it means that for individual taxpayers, who normally are taxed at the rate of 28%, the taxable rental income will be 91%, instead of 100%.

This means that if you have a net rental income of 10.000€ in 2022 and the tax is 28%, this equates to 2.800€. The same rental income in 2023, will generate a tax bill of 2.548€. As this will only be effective in 2023, the tax is only submitted and paid in 2024.

Please note that this applies to long-term rental contracts (category F) and not to touristic lettings which are service and reported under category B.

What about the rental income received by companies?


This law will also benefit companies and in this case, the coefficient to calculate the tax will be 0.87.

How can landlords save tax on rental income?

If you are a landlord with rental income from category F, please be aware that the longer the contract, the lower the tax rate applicable to your net income and this is not new. What is new is that the government will include in this law reductions to the taxable income and these reductions will increase with the length of the contract, as per the image below:

Term of the contract	Tax Rate	Taxable income
Up tp 2 years	28%	91%
From 2 to 5 years	26%	90%
From 5 to 10 years	23%	89%
From 10 to 20 years	14%	79%
More than 20 years	10%	70%

This law that was proposed by the government will also include these new coefficients for contract renewals. For instance, a contract of 2 years when it's renewed, will benefit from the tax at 24% and only 89% of the net rental income will be taxed.



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