

IRS 2026: WHAT CHANGES FOR LANDLORDS AND TENANTS UNDER THE NEW RULES?

ALL FINANCE MATTERS

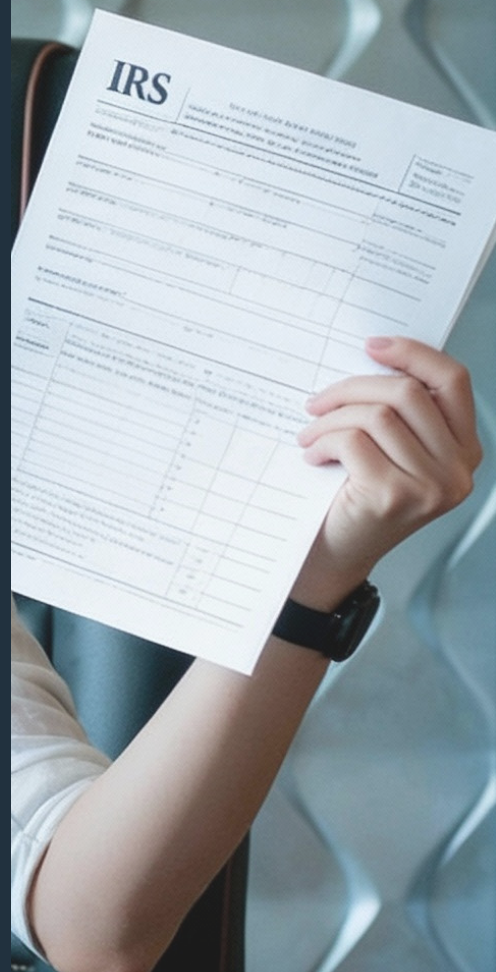
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The housing crisis and rising rents have pushed the government to introduce a new set of tax measures that will take effect in 2026. The goal is clear: stimulate the rental market and ease the tax burden for both property owners and tenants.

However, please note the law has not yet been published. The measures described below reflect the government's intentions announced in October 2025 and may change once the final legislation is approved. Stakeholders should wait for the official version before making decisions.

Tax Measures to Boost Rental Supply

The government's fiscal plan for 2026 is designed to increase housing availability and make renting more attractive. Two major changes stand out:

- Higher deductions for tenants on annual rent payments.
- Significant reduction in the Personal Income Tax (IRS) rate applied to rental income for landlords.

These measures are part of the broader housing policy announced by the government. The fiscal component is intended to complement structural reforms aimed at addressing the housing shortage.

Tenants: Higher Deductions, Limited Relief

For tenants, the rules remain largely familiar, but with a modest improvement. The deduction for rent expenses in IRS stays at 15% of annual rent, but the maximum limit increases, from €700 today to €900 in 2026 and rising further to €1,000 in 2027 for contracts under the "moderate rent" regime.

In practical terms, households paying higher rents could save an extra €200 per year in taxes. While this is a welcome change, it is essential to note that the benefit is limited compared to the sharp rise in rental prices across the country.

Eligibility remains strict: the deduction only applies to permanent housing contracts registered on the Tax portal. Tenants should confirm that their lease is properly recorded to qualify for the benefit. Please remember that tenants should always check their tax webpage to verify if the contract is duly registered and if rental receipts are properly issued.

Landlords: Historic Tax Cut on Rental Income

The most notable change in the 2026 tax package affects landlords. The IRS tax rate on rental income will decrease from 25% to 10% for contracts that meet the criteria of the moderate rent regime; a new concept introduced by the government.

Currently, this regime applies to monthly rents up to €2,300, but this threshold raises important questions. Will the same limit be used across all property types and regions, or will adjustments be made to reflect local market conditions? At this stage, these details remain unclear, and we must wait for the final legislation to confirm whether regional differences or property-specific criteria will be introduced.

What is clear is that this measure provides a 60% reduction in tax liability, making it one of the most significant incentives ever offered to landlords. The government's stated goal is to boost rental supply by rewarding property owners who enter into affordable housing contracts.

Corporate landlords also benefit: companies renting out properties will pay corporate tax (IRC) only on half of the rental income, creating an additional incentive for companies to enter the housing market.

The government estimates these measures could bring up to 300,000 new homes to the rental market, with 45,000 units expected by the end of 2026.

Additional Tax Benefits for Landlords

Beyond the reduction in IRS rates, landlords gain access to other significant incentives:

Capital Gains Exemption: when selling a property and reinvesting the proceeds in the purchase or rehabilitation of a property intended for moderate-rent leasing, landlords may avoid paying IRS on capital gains.

This offers a major benefit that could apply to any property undergoing a significant change, since currently, reinvestment is only allowed when you sell a property that was your primary residence exclusively in the 12 months before the sale. Under the proposed change, this benefit could extend to any property, making it an attractive option for owners wanting to sell Local Lodging properties without facing high capital gains taxes or the need to wait the typical

36-month period before selling.

Exemption from AIMI (Additional Council Tax): Properties allocated to moderate-rent will be exempt from this tax.

Reduced VAT: A 6% VAT rate applies to construction and rehabilitation works for properties destined for moderate-rents.

Requirements and Conditions

Rent Range: The lease must have a monthly rent between €400 and €2,300.

Minimum Contract Duration: The rental agreement must last at least three years.

Other Measures: The government is also increasing IRS deductions for tenants and implementing faster eviction procedures for non-compliance.

Pending Clarifications

Although the main framework is set, several details await clarification:

Will the 10% tax rate apply only to new contracts, or will existing leases qualify?

How will these rules interact with the "Mais Habitação" program?

What are the precise criteria for moderate rent and affordable housing, which determine eligibility for tax benefits?

The government is expected to release detailed regulations during the first quarter of 2026, providing answers to these critical questions.

Preparing for the New Tax Landscape

Both landlords and tenants should take proactive steps to ensure compliance and maximize benefits.

Tenants: Verify that your rental contract is correctly registered with the Tax Authority. Without this, deductions cannot be claimed.

Landlords: Review your contracts to confirm they meet the "moderate rent" criteria. Consider adjusting lease terms to qualify for the reduced 10% tax rate and other incentives.

Given the complexity of the proposed rules, the fact that the legislation has not yet been formally published, and the potential financial impact for both landlords and tenants, professional advice should be sought before making any decisions or contractual changes. At AFM, we support individuals and businesses in analysing eligibility, reviewing rental contracts, and structuring their tax position in a compliant and tax-efficient manner.



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THAT SAYS YOU NEED TO LEAVE A TIP."**