

TRANSITIONING FROM LOCAL LODGING TO RENTAL (AL) TO LONG TERM RENTALS: NEW PROCEDURES

ALL FINANCE MATTERS

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Housing

The legislative package "Mais Habitação" (introduced by Law No. 56/2023, of October 6) brought new rules and limitations regarding the licensing, operation, and allocation of properties under the Local Lodging regime, making it less appealing.

Aiming to increase the number of properties available for long term rentals, this package has introduced benefits for property owners opting to switch their properties from Local Lodging to the residential rental market.

Changes in Local Lodging

The "Mais Habitação" legislative package introduced significant legislative changes across several areas, all aimed at revitalizing the real estate housing market.

While Local Lodging was previously encouraged by the government and various public entities as a valuable tool for property rehabilitation, the new legislation significantly affects the viability of Local Lodging operations, particularly those in autonomous fractions within horizontally owned buildings. "Mais Habitação" has suspended new Local Lodging licenses in the mainland, except in specific rural areas and urban centers without housing pressure, listed in a regulation (Order No. 208/2017, of July 13).

This new regime sets a five-year validity period for existing licenses, renewable for the same period, with renewal requiring explicit approval from the competent municipal chamber. Additionally, the non-transferability rule for Local Lodging licenses has been established, meaning holders cannot transfer the license even when selling the property.

Apart from the expiration of inactive registrations and those failing to provide "proof of activity", the new regime reassesses Local Lodging registrations issued upon its entry into force during the year 2030, potentially renewing them for five years after the first reassessment.

Furthermore, the government has introduced an Extraordinary Contribution tax on apartments and establishments under Local Lodging ("CEAL"), set at 15%. CEAL applies to residential properties allocated to Local Lodging on December 31 of each year, payable by the establishment's operators. Property owners where Local Lodging operates, even if not operators, are subsidiarily responsible for this contribution.

Transition of Properties Previously Dedicated to Local Lodging to Long-Term Rentals:

Despite acknowledging the constraints on the Local Lodging regime, and to encourage properties previously allocated to Local Lodging into the long-term rental market, "Mais Habitação" offers tax benefits to property owners and Local Lodging license holders transitioning to long-term residential rentals.

Accordingly, properties transferred from Local Lodging to long-term rentals for permanent housing until December 31, 2024, benefit from IRS (Personal Income Tax) and IRC (Corporate Income Tax) exemptions on rental income. Conditions for exemption include:

a) Rental income originates from properties previously allocated to Local Lodging; b) Local Lodging establishments were registered and allocated for this purpose until December 31, 2022; c) Rental contracts and registrations with the Tax Authority are completed until December 31, 2024.

This exemption applies to rental income until December 31, 2029.

To benefit from this exemption, property owners must declare the cessation of Local Lodging activity by year-end and notify the Tax Office at the start of the long-term rental. The communication must be made through the Balcão Único eletrónico (Single Electronic Counter) under "Local Lodging", selecting "Communication of Change of Activity", and submitting the form provided there.



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