

PORTUGAL'S 2026 HOUSING PACKAGE: KEY TAX MEASURES AND INCENTIVES FOR THE REAL ESTATE SECTOR

ALL FINANCE MATTERS

Largo das Sete Ruas, 1-B
8800-604 - Tavira

Rua Frederico Lecor, Nº 53 B
8000-247 Faro

E : info@afm.tax

P : +351 281 029 059

W : www.afm.tax

The Portuguese Government has introduced the 2026 Housing Package through Decree-Law no. 97/2026, published on 20 May 2026, with the objective of increasing housing supply and encouraging long-term residential investment. The new legislation establishes a range of tax incentives and regulatory measures targeting property owners, developers, investors and non-resident buyers, particularly within the moderate-rent housing segment.

The package introduces significant amendments across VAT, IRS, IMT and capital gains taxation, alongside the creation of new investment structures designed to stimulate residential development and rental activity.

Moderate Rent and Acquisition Thresholds

Access to most of the new tax incentives is subject to compliance with specific financial limits established under the moderate-rent framework. The maximum monthly rent eligible under the regime is set at €2,300, while the maximum acquisition or construction value is capped at €660,982.

These thresholds also include furniture, equipment and ancillary services linked to the property where they form part of the contractual arrangement.

VAT Reduction to 6% on Construction and Rehabilitation

One of the most relevant measures is the reduction of the VAT rate to 6% for the construction or rehabilitation of properties intended for primary residence or long-term rental purposes.

The legislation also introduces a reverse charge mechanism, transferring responsibility for VAT payment to the real estate promoter, including entities otherwise exempt from VAT.

To maintain eligibility for the reduced VAT rate, the property must be sold within 24 months for use as a primary residence, and the deed must expressly reference the application of the 6% VAT rate.

The regime further establishes penalties for non-compliance. Minor breaches may result in the payment of the VAT difference plus interest, while more significant failures may trigger replacement of VAT returns, additional interest and fines of up to 30%.

In cases of self-construction, individuals initially pay VAT at the standard 23%

rate but may request reimbursement of the difference from the Portuguese Tax Authority once the works are completed and supporting documentation is provided.

Rental Income and IRS Incentives

Rental income derived from qualifying moderate-rent properties will benefit from a reduced autonomous IRS rate of 10%. For companies or taxpayers with organised accounting, the taxable income generated from these rents may benefit from a 50% reduction.

The withholding tax applicable to qualifying rental income is also reduced to 10%.

Additionally, the deduction limits for rental expenses and mortgage interest relating to pre-2012 contracts will increase to €900 in 2026 and €1,000 in 2027.

Capital Gains Relief on Reinvestment

The new package introduces an important capital gains relief mechanism applicable to secondary properties. Under the new rules, capital gains taxation may be excluded where the proceeds from the sale are reinvested in properties intended for moderate-rent housing.

The reinvestment must occur between 24 months before and 36 months after the sale of the original property. Furthermore, the reinvested property must enter the rental market within six months and remain available for at least 36 months during a five-year period.

IMT Changes for Non-Residents

The legislation also introduces changes to IMT applicable to non-resident buyers. A new 7.5% IMT surcharge will apply to non-residents, although exemption or reimbursement may be available where the purchaser becomes tax resident in Portugal within two years or places the property under moderate-rent conditions for at least 36 months.

One of the recent practical improvements regarding IMT procedures is the extended validity of the payment document. It is now possible to issue the IMT payment slip in advance, with a validity period of up to 30 days. However, although the document may remain valid for that period, the tax must still be paid before the execution of the deed. For example, if the payment slip

is issued today with a validity until 27/06/2026, but the deed takes place on 20/06/2026, the IMT must be settled no later than the date of the deed. Previously, the payment slip often had to be issued only a few days before completion, leaving little time to correct any potential errors.

Residential Rental Investment Contracts (CIA)

The Government has also created Residential Rental Investment Contracts (CIA), managed by the IRU, designed to encourage long-term residential investment.

These contracts require a 25-year commitment and provide several tax benefits, including exemptions from IMT and Stamp Duty on acquisitions, IMI exemptions for up to eight years, and a 50% VAT refund on architectural and engineering services.

The legislation also establishes clawback provisions in cases of early termination, requiring repayment of part or all of the benefits obtained depending on the duration of the contract.

Conclusion

The 2026 Housing Package represents a significant shift in Portugal's housing and tax policy framework, combining fiscal incentives with compliance obligations intended to stimulate residential construction and long-term rental activity.

Given the complexity of the measures introduced and the specific conditions attached to each benefit, careful tax and legal assessment will be essential for developers, investors and property owners seeking to take advantage of the new regime.

afm
all finance **m**atters



For any inquiries or support, our team can guide you through the whole moving process. Feel free to reach out to us at info@afm.tax or visit www.afm.tax.

"YOU MUST PAY TAXES, BUT THERE'S NO LAW THAT SAYS YOU NEED TO LEAVE A TIP."