

**FEBRUARY 2019****PERSONAL INCOME TAX (IRS) – REAL ESTATE INCOME****INTRODUCTION**

Considering the current residential lease market situation and as already disclosed, the taxation of the Real Estate Income under the Personal Income Tax (IRS) changed in order to encourage the property owners to sign long-term lease agreements.

On January 9<sup>th</sup> 2019 the Law no. 3/2019 was published, setting the terms of the amendments to the existing tax regime, which we describe below.

**AMENDMENTS TO THE PERSONAL INCOME TAX CODE – NET WORTH INCREASE**

Until the entry into force of the above-mentioned law, the compensations due for the termination of, namely, house lease agreements, were considered an income subject to Personal Income Tax, in category G – Net Worth Increase.

The new legislation now excludes the compensations to be paid for the termination of open-ended lease agreements from taxation in IRS, regarding the property that is the permanent residency of the taxable person.

The amendments to the regime are related with the compensations due by the landlords in case of termination of the open-ended lease agreement pursuant to the terms set forth in article 1101.<sup>o</sup> of the Portuguese Civil Code, namely (i) when the landlord or his first line descendants need the property for housing purposes or (ii) for demolition or rehabilitation that demand the property to be vacant.

**AMENDMENTS TO THE PERSONAL INCOME TAX – REAL ESTATE INCOME TAX**

In general, the real estate income of natural persons is taxed at the autonomous rate of 28%. With the entry into force of these amendments to the legislation, that autonomous tax rate is reduced in the following terms:

<b>Initial Term</b>	<b>Tax Reduction</b>	<b>Applicable Rate</b>	<b>Renewals</b>
Equal or higher than 2 years and lower than 5 years	2%	<b>26%</b>	For each renewal for an equal period, a 2% reduction is applied, until the maximum limit of 14%
Equal or higher than 5 years and lower than 10 years	5%	<b>23%</b>	For each renewal for an equal period, a 5% reduction is applied, until the maximum limit of 14%
Equal or higher than 10 years and lower than 20 years	14%	<b>14%</b>	-
Higher than 20 years	18%	<b>10%</b>	-

The Government will set the terms on which the above-mentioned tax reductions are applied within 60 days from the date of entry into force of this law.

**ENTRY INTO FORCE AND EFFECTS IN TIME**

Law no. 3/2019, of January 9<sup>th</sup> has entered into force on January 10<sup>th</sup> 2019 and has taken effect from January 1<sup>st</sup> 2019, being applicable to new lease agreements and respective renewals, as well as to the contract renewals that are signed from January 1<sup>st</sup> onwards.

**PARES | Advogados** is available to provide more client-specific information on the taxation of real estate income and other income related to real estate property.

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