

Reduced VAT Rate (6%) to Urban Rehabilitation Works

1) CONTEXT

On March 26, 2025, the Supreme Administrative Court issued a [Judgment for the harmonization of case law](#)¹, which confirmed the requirements for the application of the reduced VAT² rate (6%) to urban rehabilitation works contracts, pursuant to the previous wording of item 2.23 of List I annexed to the VAT Code. The Court concluded that the reduced rate is only applicable to rehabilitation works contracts relating to properties *located “within an Urban Rehabilitation Area for which an Urban Rehabilitation Operation has been previously approved.”*

The Judgment, however, refers not to the current wording of the law but to the version in force prior to the publication of the More Housing Package³ ("Pacote Mais-Habitação"), which provided for the application of the 6% VAT rate to *“urban rehabilitation works contracts, as defined in specific legislation, carried out on buildings or public spaces located in urban rehabilitation areas (critical areas for urban recovery and redevelopment, areas of intervention of urban*

¹ Within the scope of Case No. 012/24.9BALSB, available at the following [link](#).

² Imposto sobre o Valor Acrescentado.

³ Published under Law No. 56/2023 of October 6, and in force since October 7, 2023.

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rehabilitation companies, and others) designated in accordance with the law, or within the scope of redevelopment and rehabilitation operations of recognized national public interest.”

The previous wording remains applicable to **(i)** applications for licensing, prior communication, or prior information requests relating to urban development operations submitted prior to the entry into force of the More Housing Package, and **(ii)** applications for licensing or prior communication submitted after that date, provided they are based on a favorable prior information request still in force.

2) REQUIREMENTS TO BENEFIT FROM THE REDUCED RATE

Through the aforementioned Judgment for the harmonization of case law, the Supreme Administrative Court concluded that the following cumulative requirements must be met: (i) the existence of a works contract, (ii) concerning a property located within an Urban Rehabilitation Area (ARU), and (iii) for which an Urban Rehabilitation Operation (ORU) has been previously approved.

In doing so, the STA validated the interpretation of the Tax Authority, adopting a joint reading of the VAT Code and the Legal Framework for Urban Rehabilitation which establishes that urban rehabilitation requires not only the delimitation of an ARU, but also the prior approval of an ORU, wherein the intervention strategies for the area in question are defined.

3) CURRENT WORDING

As previously clarified in another Information Note on this subject (available at the following [link](#)), we recall that the 6% VAT rate may currently be applied to building rehabilitation works contracts, provided the properties are located within an Urban Rehabilitation Area (ARU).

Thus, on the one hand, although the new wording excludes works contracts that consist in the construction of new buildings, on the other hand, it no longer requires the existence of an approved Urban Rehabilitation Operation (ORU), as confirmed by the Tax Authority itself in Official Circular No. 25003, dated October 30, 2023.

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