DYNAMIC
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NEWSLETTER

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6% VAT on urban rehabilitation works: new Law no. 48/2026 establishes that location within an Urban Rehabilitation Area is sufficient

WHAT CHANGED

Recently published Law no. 48/2026, of 17 August, provides an authoritative interpretation of item 2.23 of List I annexed to the Value Added Tax Code[1], with effect from 1 January 2009[2].

Accordingly, urban rehabilitation works carried out on properties located within Urban Rehabilitation Areas[3] are now subject to the reduced VAT rate of 6%, regardless of whether an Urban Rehabilitation Operation[4] has been approved.

[1] "VAT Code".
[2] With effect from the entry into force of Law no. 64-A/2008, of 31 December.
[3] "ARU".
[4] "ORU".

BACKGROUND

Item 2.23 of List I annexed to the VAT Code[5] provided for the application of the reduced VAT rate of 6% to:

"*building rehabilitation works and works involving the construction or rehabilitation of publicly owned facilities for collective use, located within urban rehabilitation areas (critical areas for urban recovery and redevelopment, intervention areas of urban rehabilitation companies and others) delimited in accordance with the law, or carried out within the scope of regeneration and rehabilitation operations recognized as being in the national public interest.*"

On 26 March 2025, the Supreme Administrative Court[6] issued a judgment for the harmonization of case law[7] endorsing the position previously taken by the Portuguese Tax and Customs Authority:[8] the application of the reduced VAT rate of 6% to urban rehabilitation works was subject to two cumulative requirements: *(i)* the property had to be located within an ARU; and *(ii)* an ORU had to have been approved in advance, pursuant to the Legal Framework for Urban Rehabilitation[9].

The new Law no. 48/2026 directly reverses this interpretation: location within an ARU is sufficient, and no approved ORU is required. The new law therefore expressly departs from the position established by the above-mentioned judgment, making the first requirement alone, i.e. location within an ARU, sufficient.

CONCLUSION

By providing an authoritative interpretation of item 2.23 and departing from the position established in the STA's judgment harmonizing case law, Law no. 48/2026 reopens the debate on the lawfulness of additional VAT assessments issued on the grounds that no ORU had been approved.

Taxpayers who incurred VAT at the standard rate of 23% on urban rehabilitation works solely on those grounds now have a legal basis to claim a refund of the excess tax paid, including where they have already been notified of an additional assessment by the AT.

This clarification covers cases in which the relevant planning procedure was initiated before October 2023, when item 2.23 was amended.

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[5] In force until amended by the *Mais Habitação* Package, introduced by Law no. 56/2023, of 6 October.
[6] "STA".
[7] In Case no. 012/24.9BALSB, available at www.dgsi.pt.
[8] Hereinafter, "AT".
[9] Approved by Decree-Law no. 307/2009, of 23 October.

However, recovery of the tax remains subject to the statutory time limits applicable to each available remedy (i.e., administrative claim, judicial challenge or ex officio review). We therefore recommend that affected taxpayers assess their specific circumstances as soon as possible.

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