

### Decree-Law No. 97/2026, of 20 May - Tax Relief Measures for Housing

#### RELEVANT LEGISLATION

Decree-Law No. 97/2026, of 20 May: approves tax relief measures to promote housing supply, with direct impact on Value Added Tax<sup>1</sup> applicable to construction and rehabilitation works, on the taxation of rental income (under Personal Income Tax<sup>2</sup> and Corporate Income Tax<sup>3</sup>) and on capital gains from property sales reinvested in residential leasing (under PIT).

#### WHAT HAS CHANGED

On 20 May 2026, a set of new fiscal measures specifically targeting the housing sector entered into force. The aim is to make it more affordable to build, rehabilitate and rent dwellings at controlled costs – benefiting both those who build and invest and those who rent.

<sup>1</sup> VAT.

<sup>2</sup> PIT.

<sup>3</sup> CIT.

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The measures approved are as follows:

1. Reduced VAT rate (6%) on construction and rehabilitation works for residential properties;
2. Partial refund of VAT borne by individuals on construction works for their primary residence;
3. PIT exemption on capital gains reinvested in residential properties for leasing;
4. Reduced PIT rate on rental income;
5. 50% exclusion of rental income for CIT and PIT purposes (category B)
6. Tax benefits for alternative investment funds with assets in affordable leasing;
7. A new package of tax benefits for investors who build or rehabilitate properties for long-term leasing (Investment Leasing Agreements – “ILA”);
8. Benefits in Real Estate Transfer Tax<sup>4</sup> and Stamp Duty on the purchase of cost-controlled dwellings;
9. Increased IMT rates for non-residents;
10. Increase in the PIT deduction limit for tenants;
11. PIT and CIT exemption on rental income under the Simplified Affordable Leasing Regime (RSAA).

## THE KEY MEASURES IN DETAIL

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### 1. APPLICATION OF THE REDUCED VAT RATE (6%) TO RESIDENTIAL CONSTRUCTION AND REHABILITATION

**A reduced VAT rate of 6% now applies (through the introduction of a new item 2.42 of List I appended to the VAT Code) to construction and rehabilitation works on residential properties.**

The 6% rate applies to construction or rehabilitation works on (i) properties intended for sale as the purchaser's primary residence, where the sale must occur within a maximum of 24 months from the issuance of the occupancy permit, and (ii) properties exclusively intended for residential leasing, where the first lease agreement must likewise enter into force within a maximum of 24 months. Important note: the Decree-Law introduces a VAT reverse charge mechanism, whereby the acquirer of the works (the employer) becomes responsible for remitting the tax to the State. This has practical implications for invoicing and cash flow management for developers and contractors.

The new regime also provides for control mechanisms to ensure that properties remain effectively allocated to the residential purposes required to benefit from the reduced rate.

On the one hand, if the legal requirements for applying the reduced rate are not met, the taxable person (i.e., the employer or the developer, where the employer is a private individual) is required to regularise the VAT differential in favour of the State.

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<sup>4</sup> IMT.

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On the other hand, if the property is not allocated to the purchaser's primary residence within 6 months of acquisition, or ceases to be so within the following 12 months, an IMT surcharge of 10% of the taxable value of the property may be applied to the purchaser.

### **Entry into Force**

The new regime takes effect from the quarter following the entry into force of the Decree-Law.

By joint election of the contractor and the acquirer, it may be applied to transactions from 1 January 2026.

It should be noted that this new measure applies to works whose procedural initiation<sup>5</sup> commenced between 25 September 2025 and 31 December 2029, and in respect of which VAT becomes chargeable from 1 January 2026.

This measure is temporary in nature, remaining in force until 31 December 2032.

## **2. PARTIAL REFUND OF VAT ON CONSTRUCTION WORKS FOR PRIMARY RESIDENCE**

The Decree-Law creates a regime for the partial refund of VAT borne by individuals who contract construction works for properties intended as their primary residence, outside the scope of any business or professional activity.

**The amount refunded corresponds to the difference between the VAT actually borne at the standard rate and the amount that would have resulted from applying the reduced rate.** Only construction works are eligible (not the mere purchase of materials), provided that the rateable value or the acquisition value of the land plus construction costs does not exceed the maximum limits set out in the Decree-Law for "cost-controlled housing".

The property must be allocated to the applicant's primary residence within 6 months of the issuance of the occupancy permit, and that allocation must be maintained for a minimum period of 12 months. The refund application is submitted to the Tax and Customs Authority electronically, within 12 months of the issuance of the occupancy permit, and the refund is processed within a maximum of 150 days.

### **Entry into Force**

The regime applies to works in respect of which VAT becomes chargeable by 31 December 2032. Applications relating to the first three quarters of 2026 may be submitted from 1 October 2026.

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<sup>5</sup> Procedural initiation is understood to mean the submission of the licensing application, prior communication, prior opinion or notification of the commencement of works, as applicable to the specific case.

### 3. PIT EXEMPTION ON CAPITAL GAINS REINVESTED IN RESIDENTIAL LEASING

Individuals who sell a residential property and reinvest the proceeds in the acquisition of another property for residential leasing may be exempt from PIT on the capital gains realised.

To benefit from this regime, a number of conditions must be met, including: (i) the reinvestment must be made in a property located in Portugal; (ii) it must take place within the 24 months preceding or the 36 months following the sale; (iii) a residential lease agreement must be entered into; (iv) the monthly rent charged must comply with the maximum limits set out in the Decree-Law for "cost-controlled housing", which in 2026 corresponds to €2,300/month (equivalent to 2.5 times the national minimum wage), as well as the maximum rent by property type to be set by ministerial order, based on 80% of the median rent per m<sup>2</sup> published by Statistics Portugal (INE) for each municipality; and (v) the property must remain leased for the minimum period required by law.

The exemption lapses – and the tax becomes payable – if the property is not leased within the prescribed deadlines, if the rent charged exceeds the legal limits, or if the property is sold within 5 years of the reinvestment.

#### **Entry into Force**

Applies to disposals made between 1 January 2026 and 31 December 2029.

### 4. REDUCED PIT RATE OF 10% ON RENTAL INCOME

**Rental income arising from residential lease agreements may now benefit from a PIT rate of 10%**, instead of the general rate of 25%. This represents a significant reduction for all landlords who let under the Decree-Law's "cost-controlled housing" framework.

The regime applies only where the rents charged comply with the maximum limits set out in the Decree-Law for "cost-controlled housing", as described above.

The benefit ceases if the rent charged exceeds the legal limits or if the property ceases to be allocated to residential leasing.

#### **Entry into Force**

Applies to rents received between 1 January 2026 and 31 December 2029.

## **5. 50% EXCLUSION OF RENTAL INCOME FOR CIT AND PIT PURPOSES (CATEGORY B)**

Companies and sole traders with organised accounting who obtain residential rental income complying with the maximum limits set out for "cost-controlled housing" may now benefit from a 50% exclusion from taxation under CIT or PIT (category B).

The benefit is maintained for as long as the rent charged complies with the legal limits and the property continues to be leased for residential purposes.

### **Entry into Force**

The measure takes effect from 1 January 2026 until 31 December 2029.

## **6. TAX BENEFITS FOR ALTERNATIVE INVESTMENT FUNDS**

The Decree-Law creates a favourable tax regime for participants or shareholders of alternative investment funds (AIFs) that allocate part of their assets to affordable residential leasing or sub-leasing.

To benefit from the regime, AIFs must be established (or have their constitutional documents amended) by 31 December 2029, and at least 5% of their assets must consist of properties subject to agreements entered into under the RSAA or other affordable leasing instruments.

Income distributed to participants, in the proportion corresponding to affordable residential leasing or sub-leasing income, is taxed at a special rate of 5% (under PIT or CIT). Other income (whether by distribution, redemption or liquidation) benefits from a progressive tax exclusion, ranging from 2.5% to 30%, depending on the percentage of eligible assets held by the AIF. AIFs falling within the two highest brackets also benefit from a 25% reduction in the Stamp Duty rate provided for in item 29.2 of the General Stamp Duty Table.

### **Entry into Force**

The measure takes effect from 1 January 2026.

## **7. INVESTMENT LEASING AGREEMENTS ("CIA")**

The Decree-Law creates the Investment Leasing Agreement (CIA) regime, intended for projects involving the construction, rehabilitation or acquisition of properties for residential leasing. The CIA is entered into with the State, represented by IHRU (the Housing and Urban Rehabilitation Institute), and may remain in force for up to 25 years.

In exchange for the commitment to lease the properties at affordable prices and for the minimum periods defined in the agreement, the investor gains access to a significant package of tax benefits.

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To benefit from this regime, the Decree-Law requires, among other conditions, that a significant portion of the construction area be allocated to residential leasing and that the rents charged comply with the maximum limits set out for "cost-controlled housing".

The main benefits include: exemption from IMT and Stamp Duty on the acquisition of the properties; exemption from Municipal Property Tax<sup>6</sup> for 8 years (and a 50% reduction thereafter); exemption from the Additional to IMI; 6% VAT on construction works; and partial refund of VAT paid on architectural and engineering services.

Compliance with the contractual obligations is monitored by IHRU. In the event of non-compliance, the tax benefits are forfeited and the proportional repayment of amounts already enjoyed may be required.

#### **Entry into Force**

This regime enters into force on 1 September 2026.

### **8. IMT AND STAMP DUTY BENEFITS ON THE ACQUISITION OF COST-CONTROLLED DWELLINGS**

The Decree-Law introduces tax benefits for individuals who acquire, for the first time, a property intended as their primary residence that falls within the concept of "cost-controlled housing".

For acquisitions whose value does not exceed the upper limit of the first bracket of the IMT table for primary residences: full IMT exemption and a deduction against the corresponding Stamp Duty liability.

For acquisitions whose value exceeds that limit (but remains within the cost-controlled housing limits): application of the normal progressive IMT rates - which represents more favourable treatment compared to the general regime.

This benefit does not apply to those who are, or have been in the preceding 3 years, owners of another residential property. Its application is subject to a resolution of the municipal assembly, upon proposal by the municipal council.

#### **Entry into Force**

The regime has been in force since 21 May 2026.

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<sup>6</sup> IMI.  
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## **9. INCREASED IMT RATES FOR NON-RESIDENTS**

The Decree-Law introduces an **increased IMT rate of 7.5% applicable to the acquisition of residential properties by non-residents**, replacing the normal progressive rates.

The increased rate does not apply where: (i) the acquirer was already a tax resident in Portugal at the time of acquisition; (ii) the acquirer becomes a tax resident in Portugal within 2 years of the acquisition; or (iii) the property is allocated to residential leasing at a rent within the cost-controlled housing limits, within 6 months of acquisition, and remains leased for at least 36 months during the first 5 years.

In cases (ii) and (iii), the increased IMT paid is refundable upon application submitted within 6 months of the event that eliminates the surcharge.

### **Entry into Force**

The regime has been in force since 21 May 2026.

## **10. INCREASE IN THE PIT DEDUCTION LIMIT FOR TENANTS**

Tenants may now **deduct a higher annual amount from their PIT liability** in respect of rent paid under residential lease agreements.

The PIT deduction limit is raised to €900 in 2026 and to €1,000 from 2027 (inclusive). This increase applies to rent actually borne by the tenant, regardless of whether the agreement is concluded under the RSAA or the general leasing regime.

### **Entry into Force**

The €900 limit applies to the 2026 tax year; the €1,000 limit applies from the 2027 tax year onwards.

## **11. SIMPLIFIED AFFORDABLE LEASING REGIME (RSAA)**

The Decree-Law creates the Simplified Affordable Leasing Regime (RSAA), which replaces the previous Rental Support Programme. The RSAA aims to simplify and make more attractive residential leasing at genuinely affordable prices.

Residential lease agreements entered into under the RSAA benefit from full PIT and CIT exemption on rental income – a more favourable regime than the 10% rate provided for in chapter 4, which applies to cost-controlled residential leasing outside the RSAA.

To benefit from the RSAA, the monthly rent charged must be equal to or less than 80% of the median rent published by Statistics Portugal (INE) for the municipality of the property, by property type, to be set by ministerial order to be

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published within 30 days. Agreements for permanent residence have a minimum term of 3 years; agreements for temporary residence have a minimum term of 3 months.

To benefit from the exemption, the landlord must notify the agreement to IHRU by 15 January of the year following its conclusion, attaching a copy of the agreement and proof of notification to the Tax and Customs Authority's online portal.

Non-compliance with the requirements results in the forfeiture of tax benefits from the moment of non-compliance, together with an obligation to regularise the tax due plus compensatory interest.

### **Entry into Force**

This regime enters into force on 1 September 2026.

### **IMPACT OF THE NEW MEASURES**

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The measures now approved represent a significant fiscal revision in the housing sector, seeking to create more favourable conditions for real estate investment and residential leasing.

The application of the reduced VAT rate (6%) to construction and rehabilitation works may result in very significant savings in property development costs, with a potential impact on increasing housing supply.

The new PIT and CIT benefits reinforce the attractiveness of residential leasing at moderate prices, incentivising owners and investors to make properties available in the residential market.

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