



Fiscal incentives applicable to buildings in historical areas and buildings older than 30 years

Currently there are several incentives geared to rehabilitate old buildings in historic areas. Some of these incentives have been extended to buildings older than 30 years outside these historic areas.

Incentives applicable to buildings in urban rehabilitation areas:

- Exemption of the annual property tax (IMI) for a period of 3 years – in some instances this can be for 5 years and the 5 years can be extended for a further period of 5 years (the extension is in the case of residential property used as a permanent residence (rental or own home)). Those properties used for short term rentals or as a secondary home, strictly speaking would not comply with the letter of the law and would therefore not benefit from this exemption.
- Exemption from transfer duty (IMT) – rehabilitation work has to start within 3 years of purchase.
- Exemption from transfer duty on a subsequent resale if the property is to be rented or used as a primary residential property (would exclude offices, shops). As above, short term rentals and secondary residences would be excluded.
- Exemption / reduction on tariffs / fees for the occupation of municipal property (pavements / roads).
- On resale, the capital gains are taxed at a rate of only 5% vs the normal 28% rate should these buildings be resold. The legislation is quite specific in that this benefit is granted to residents - though, should a non-resident (resident in another EU country (also EEA for these purposes and Switzerland) be interested in such a project, we can request a binding ruling.
EU residents should be entitled to this benefit as well as, in terms of the freedom of movement clause in the EU treaty, an EU citizen should be entitled to the same benefits as a Portuguese resident. However, it is probably better to get a tax ruling beforehand rather than embark on arguments with the tax authority afterwards and fight through the courts - a lot cheaper.
- Rental income in these buildings can benefit from a reduced rate of taxation of only 5%.
- Reduced rate of VAT applicable (6% in the mainland, 5% in Madeira and the Azores). This reduced rate is not restricted to residential property and the benefit extends to materials as well as opposed to the general VAT reduced rate applicable to repairs and maintenance of residential property.

Incentives applicable to buildings older than 30 years outside 'urban rehabilitation' areas:

- Exemption of annual property tax for a period of 3 years – in some instances this can be for 5 years and the 5 years can be extended for a further period of 5 years (the extension is in the case of primary residential property - rentals or own home. It would not apply for example in the case of shops, offices, secondary residences).
- Exemption from transfer duty – rehabilitation work has to start within 3 years of purchase.
- Exemption from transfer duty on a subsequent resale if the property is to be **rented** as a primary residence. If a property is to be used as a permanent residence, then this exemption would not apply.
- Exemption / reduction on tariffs / fees for the occupation of municipal property (pavements / roads).
- Rental income from buildings subject to the old rental laws and rehabilitated, the taxation will be at a reduced rate of taxation of only 5%. This would apply to non residential property as well (so called *rendas antigas*)
- Reduced rate of VAT applicable. This reduced rate is restricted to residential property and the benefit does not extend to materials if the materials are more than 20% or more of the work done.

VAT on residential buildings

There is a general incentive in respect of VAT - this has nothing to do with urban rehabilitation but it is applicable to any building as long as it is residential - basically the labour and overhead content on repairs and maintenance are

subject to the reduced VAT rate (6% mainland, 5% islands). If the materials are more than 20% of the invoice, then the general VAT rate should be applicable to the material portion invoiced.

Many builders / service providers are not aware of this. The reduced rate of VAT does not apply to gardens, swimming pools, tennis courts, etc.

General notes:

One should consult the municipality concerned on whether a particular building is in an 'urban rehabilitation area' and subject to these rehabilitation incentives. Preferably confirmation in writing should be obtained.

Contacts: Tony Jesus

t: +351 291 794 367

email: antonino.jesus@gmail.com

m: +351 924 204 878

web: www.expatsconsultportugal.com

Disclaimer

While due care has been taken in preparing this information note, the information therein is general and is not directed at any particular situation. We cannot therefore accept legal or other responsibility, including losses sustained in consequence of the information contained herein. You should not use this information without first seeking tax advice from a qualified professional for the particular case.