Oporto Accounting

INFORMATION NOTE

REDUCED VAT RATE FOR RESIDENTIAL CONSTRUCTION AND REHABILITATION

Decree-Law No. 97/2026 (Portugal) · July 2026

CONTENTS

01 · TIME FRAME

Effective from 1 July 2026, the measure applies to construction and rehabilitation contracts associated with urban development projects initiated between 25 September 2025 and 31 December 2029.
The reduced VAT rate applies provided that the VAT becomes chargeable between 1 January 2026 and 31 December 2032.

02 · DEFINITION OF MODERATE VALUE

"Moderate value" covers properties bought as the buyer's own permanent home, or rented out as housing, up to these limits:

SALE PRICE UP TO	MONTHLY RENT UP TO
€ 660,982	€ 2,300

The affordable monthly rent is capped at 2.5 times the national minimum monthly wage applicable in 2026. For affordable housing sales, the maximum sale price corresponds to the upper threshold of the second IMT tax bracket set out in Article 17(1)(b) of the IMT Code, as amended by Law No. 73-A/2025 of 30 December (the 2026 State Budget Law).

When calculating the moderate purchase price or monthly rent, include the full amount paid for the property or agreed under the rental contract. Add the value of goods, equipment, and accessory items permanently fitted to the property. Also add any services that increase the property's value.

03 · CONDITIONS FOR APPLICATION

The reduced VAT rate can apply to construction or rehabilitation contracts for properties sold as the buyer's own permanent home or intended for residential rental.

3.1 Sale for Own Permanent Home

All the following conditions must be met:

- The property is sold for use as the buyer's owner-occupied primary residence, and the purchase qualifies for the IMT rates applicable to an owner-occupied primary residence, including the Youth IMT rate;

- The sale must be completed within 24 months of the issuance of the occupancy permit.
- The deed or authenticated private document states that the reduced rate applies under item 2.42.1 of List I of the VAT Code.
- The sale price does not exceed €660,982.

3.2 Residential Rental

All the following conditions must be met:

- The rental qualifies for the VAT exemption under Article 9 of the VAT Code;
- The landlord reports the rental agreement to the Portuguese Tax Authority;
- The first rental agreement starts within 24 months after the property receives its occupancy permit;
- The property stays under active rental agreements for at least 36 months (consecutive or split) during the first five years after the occupancy permit is issued;
- The monthly rent does not exceed €2,300.
- The agreement does not allow subletting above the moderate rent limit of €2,300.

04 · PENALTY REGIME

Non-Compliance by the Buyer

If the buyer does not use the property as their own permanent home within six months of the purchase — checked through their tax residence — or stops using it that way at any point during the following 12 months (for example, by using it for short-term rental, as a company's registered office, as a holiday home, as a second home, or for standard rental), a 10% IMT surcharge applies on the taxable value. The law allows exceptions, such as a change in family composition or a change of workplace. This non-compliance does not cancel the reduced VAT rate retroactively, and does not require the seller or contractor to repay any VAT.

Non-Compliance by the Seller or Landlord

If the relevant conditions cease to be met, the seller or landlord must settle the VAT difference with the Portuguese State, if the 24-month deadline is missed, or the sale price (€660,982) or rent (€2,300) limits are exceeded. In this case, the seller or landlord settles the VAT through amended periodic VAT returns, plus compensatory interest and any applicable fines.

05 · SELF-CONSTRUCTION — PARTIAL VAT REFUND

Individuals building their own home can request a partial refund of the VAT paid on construction contracts for their own permanent home. This refund does not cover rehabilitation work. It applies to properties whose registered tax value — or, if higher, the land value plus construction costs (excluding VAT) — does not exceed €660,982.

Construction costs include movable goods, equipment, and accessory parts permanently fitted to the property, plus services that increase its value.
The owner must use the property as their own permanent home within six months of the date the occupancy permit is issued, checked through their tax residence. The owner must keep using the property this way for at least 12 months, except in exceptional circumstances.

The refund amount equals the VAT paid on the construction contracts at the standard rate, based on invoices reported to through the Portuguese Tax Authority's online tax portal. Isolated purchases of materials do not qualify. The refund equals the difference between the VAT paid at the standard rate and the VAT that would have applied at the reduced rate.

5.1 Time Frame

This refund regime becomes effective on 1 September 2026. It applies to contracts where VAT becomes due between January 1, 2026, and December 31, 2032, for urban development projects that started between September 25, 2025, and December 31, 2029.
Refund requests for the first three quarters of 2026 can be filed starting October 1, 2026. The 12-month filing deadline runs from that date.

This note is for general information only. It does not replace tailored tax advice. Contact your Account Manager to review how Decree-Law No. 97/2026 applies to your specific project

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