Portugal’s New Housing Tax Incentives – A Guide to the New Tax Benefits for Residential Rental Property

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Introduction

On 20 May 2026, the Portuguese Government published **Decree-Law No. 97/2026**, introducing one of the most significant housing tax reform packages in recent years. The legislation forms part of the Government’s strategy to increase the supply of residential accommodation by encouraging investment in both the construction and long-term rental housing markets.

The new legislation amends the **Personal Income Tax Code (Código do IRS – CIRS)**, the **Corporate Income Tax Code (Código do IRC)**, the **VAT Code**, the **Municipal Property Transfer Tax Code (IMT)** and the **Tax Benefits Statute (EBF)**, whilst also creating new incentive regimes for housing investment.

Among the numerous changes, two measures are likely to have the greatest impact on private investors and landlords:

- the introduction of a reduced **10% IRS tax rate** on qualifying residential rental income; and
- a new **capital gains exemption** where proceeds from the disposal of qualifying residential property are reinvested into residential rental property meeting the legislative requirements.

These measures are intended to encourage owners to make more residential property available to the long-term rental market while maintaining rents at levels considered “moderate”.

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1. Reduced 10% Tax Rate on Residential Rental Income

Perhaps the most attractive feature of the new legislation is the reduction in the autonomous IRS tax rate applicable to qualifying rental income.

Previously, residential rental income was generally subject to an autonomous tax rate of **25%**, subject to the existing reductions available for longer-term lease agreements.

Under the new regime, qualifying rental income may be taxed at **only 10%** until **31 December 2029**, provided all of the statutory conditions are met.

Who Qualifies?

Although the legislation contains detailed technical requirements, the principal conditions include:

- the lease must relate exclusively to residential accommodation;
- the property must be used for housing purposes;
- the monthly rent must qualify as a **“moderate rent”** under the legislation;
- for 2026, the moderate rent ceiling is **€2,300 per month** (being 2.5 times the national minimum monthly wage for 2026); and
- the income must be derived during the period in which the incentive remains in force.

It is important to appreciate that the **€2,300 threshold relates to the monthly contractual rent**, not to the annual rental income.

Example 1 – Property Qualifies

Mr A owns an apartment which he leases for **€2,000 per month**.

Annual rental income:

€24,000

As the monthly rent is below the moderate rent threshold of €2,300, and assuming all other legislative requirements are satisfied, the income qualifies for the reduced tax rate.

	Previous Rules	New Rules
Annual Rental Income	€24,000	€24,000
Tax Rate	25%	10%
Tax Payable	€6,000	€2,400

Annual tax saving: €3,600.

Example 2 – Property Does Not Qualify

Mrs B leases a residential property for **€2,600 per month**.

Annual rental income:

€31,200

Because the monthly rent exceeds the €2,300 moderate-rent ceiling, the preferential 10% tax regime is **not available**, notwithstanding that the property is used for residential purposes.

The rental income therefore continues to be taxed under the ordinary rules applicable to property income.

This distinction is extremely important. The qualifying test is based primarily on the **monthly contractual rent**, not on the total annual rental income.

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2. Capital Gains Reinvestment Relief

A second major innovation introduced by Decree-Law No. 97/2026 is the extension of capital gains relief to encourage investment in residential rental housing.

Historically, Portuguese capital gains relief was largely limited to taxpayers disposing of their principal private residence and reinvesting in another principal residence.

The new legislation creates a separate regime under which capital gains arising on the disposal of qualifying residential property may be excluded from taxation where the proceeds are reinvested in qualifying residential property that will be placed on the long-term residential rental market.

Unlike the traditional principal residence relief, this incentive is aimed specifically at increasing the supply of rental housing.

General Conditions

Although each transaction should be analysed individually, the principal requirements include:

- reinvestment into qualifying residential property;
- the replacement property must be allocated to residential rental;
- the lease must comply with the moderate rent requirements;
- statutory reinvestment deadlines must be observed; and
- all required declarations must be made in the taxpayer's annual income tax return.

Failure to comply with any of these conditions may result in the withdrawal of the exemption together with additional tax and interest.

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3. Moderate Rent

One of the key concepts introduced by the legislation is the concept of **moderate rent**.

For 2026, moderate rent is defined as a monthly contractual rent that does not exceed:

€2,300 per month

This threshold will be relevant not only for the reduced IRS rate but also for a number of other incentives introduced by the legislation.

Investors should therefore carefully consider rental levels before entering into lease agreements where the tax benefits are expected to apply.

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4. Other Housing Tax Incentives

The legislation contains a much broader package of housing incentives, including:

- temporary application of the reduced **6% VAT rate** to qualifying construction and rehabilitation works;
- tax incentives for residential construction and rehabilitation projects;
- new investment structures aimed at increasing the supply of housing;
- IMT measures applicable to qualifying residential property acquisitions;
- changes affecting non-resident purchasers of residential property; and
- amendments to the taxation of corporate landlords and property investment structures.

These provisions extend well beyond individual landlords and are expected to play an important role in encouraging institutional investment in Portugal's residential property market.

Practical Planning Opportunities

The new legislation creates several opportunities for investors:

- Existing landlords charging rents below the moderate rent threshold should consider whether they qualify for the new 10% tax rate.
- Investors contemplating the disposal of residential property should evaluate whether the new capital gains reinvestment relief can be utilised.
- Property developers may benefit from the reduced VAT regime when developing qualifying residential housing.
- Corporate investors should review whether the new incentive regimes improve the economics of build-to-rent projects.

As with any tax incentive, obtaining the benefit depends upon strict compliance with the legislative requirements.

Conclusion

Decree-Law No. 97/2026 represents one of the most comprehensive packages of housing tax incentives introduced in Portugal in recent years.

The reduction of the IRS tax rate on qualifying rental income from **25% to 10%** has the potential to materially improve after-tax investment returns for landlords prepared to offer residential accommodation at moderate rental levels. Likewise, the new capital gains reinvestment exemption provides a valuable planning opportunity for investors seeking to recycle capital into the long-term residential rental market.

Although the legislation is intended to stimulate housing supply, the tax benefits are not automatic. Taxpayers must satisfy detailed statutory requirements relating to the nature of the property, rental levels, reinvestment conditions and compliance obligations.

Professional advice should therefore be obtained before relying on the new provisions or implementing transactions intended to qualify for these incentives.
