

Long term rental & Tax Benefits in Portugal

With the current situation on tourism, caused by Covid 19, AL or short term rental (known as well as Holiday lets) drop significantly, leaving the majority of the accommodations empty, situation that it is predicted to happen during the full year of 2020.

Therefore, it might be the right time to consider long term rental, especially when tax rates can be reduced from 28% (autonomous rate applicable to rentals) to 14% (minimum limit).

If you want to take advantage of these beneficial tax rates, you will have to write and sign a rental agreement. Such rental agreements will have to stipulate on their clauses the duration of the contract, which will allow benefiting from the tax reductions.

So, Rental agreements with a minimum duration of 2 years and up to 5 years see a reduction from 28% to 26%. In each renewal of the rental agreement, the tax rate reduces by 2%, but limited to 14%.

Rental agreements with a minimum duration of 5 years and up to 10 years will see a reduction from 28% to 23%. In this case, the tax reduces by 5% in every renewal, but limited to 14%.

Rental agreements with a minimum of 10 years and a maximum of 20 years will benefit immediately of a reduction from 28% to 14%. Here, there will be no more tax reductions.

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Rental agreements for more than 20 years, see a reduction from 28% to 10%. In such cases, it is not possible to reduce the tax any further.

After signed, the rental agreements must be communicated to the Tax Authority and pay the respective stamp duty (10% of the monthly rent to be paid by the tenant). The communication and the payment of the tax are responsibility of the landlord. The landlord has the duty to issue the rental invoices, every month, in which the tax reduction is going to be predicted.

Another reason to consider long term rental is that, nowadays, all the costs with rentals and the property can be deducted, differently from AL, where the costs are presumed (65% of the income produced), if you choose the simplified regime. Just with organized accountancy, you can deduct all costs with AL. So, expenses as the stamp duty paid, IMI (council property tax), condominium, property maintenance and conservation costs, insurance, etc, can be offset against the rental income.

These new tax rates apply only in new contracts. Consequently, it can be worth to negotiate the existing rental agreements and sign new ones.

Of course, each case is a case, consequently has to be studied carefully and planned in advance.

Please feel free to contact, in case you want to know more.

Verónica Pisco

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(Lawyer and post-graduated in Taxation)

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