



**LONG-TERM RENTALS
and HOLIDAY LETS**

For many years, there has only existed a blurry distinction between long-term rents to residents and short-term lets to holiday makers. This contradictory situation was exacerbated by conflicting legislation and unpredictable implementation practices by local tax offices.

In recent years, there has been a concerted effort to remedy the confusion with new laws and regulations passed to discriminate clearly between the two distinct practices.

The following summary is intended to help you discriminate between the two activities. As with other fiscal matters, competent professional advice should be taken before deciding on any course of action to apply to your specific, individual situation.

RENTALS TO RESIDENTS

For Portuguese tax, long-term property rentals to residents are included in *Category F*. On “*Anexo F*” of the IRS Individual Income Tax Return, declare your fiscal number, registration details of the property, the total amount of income as well as any deductible expenses. *Finanças* will add the net to other sources of income, such as pensions, bank interest, etc. Final tax is then calculated on total income at marginal rates or as an autonomous assessment at 28%.

Rental Contracts

When a rental agreement exceeds six months, a contract is required by law. With a proper contract, registered with *Finanças*, tenants are eligible for a housing tax credit, much the same as they would as if they were paying a mortgage.

Deductible Expenses

Most necessary expenses incurred in conducting the activity – not just maintenance and repairs as before – are now deductible. The main



categories of deductible expenses which reduce taxable rental income for tax purposes are:

- Maintenance, e.g., interior and exterior painting;
- Repairs, e.g., parts or repair of plumbing or electrical systems;
- Condominium charges and collectively shared expenses such as: doorman & common area cleaning costs; building security; elevators, maintenance; energy for lighting, heating and cooling of common areas;
- Rates (“IMI or Municipal Property Tax”) and other Municipal charges, such as sewage disposal, rubbish collection, etc.;
- Insurance - Multi-Risk & Tourist Liability coverage.

Non-Deductible Expenses

The following expenses are examples of expenditures which are not deductible:

- Construction altering the structure of the building;
- Land or building acquisition;
- Installation of air conditioning;
- Other capital improvements, such as irrigation systems, etc.

When properly documented, capital improvements made in the 12 years prior to sale can enter into the calculation of the taxable base of the building for Capital Gains purposes when the property is eventually sold:

- Furnishings (these normally appear on the deed of purchase/sale)
- Mortgage costs;
- Utilities (except when included in condominium fee)
- Pool and garden maintenance;
- Property management

When correctly documented, you may enter capital improvements made within the previous 12 years into the calculation of the taxable base for capital gains purposes when the property is eventually sold.

Electronic Rent Receipts

Taxpayers who declare under category F are now required to issue *electronic rental receipts* for all rental income received from their tenants.



This receipt is issued through the *Finanças* website in an online application created for this purpose. The use of electronic rent receipt system only becomes mandatory as of November 2015

VAT: Rental Activity (Category F) is exempt from Value Added Tax..

HOLIDAY LETS

The most recent legislation defines self-catering letting of furnished accommodations to tourists as *Local Lodging*. Such a pursuit is clearly seen as a business practice under Category B (*tourism*) and is regulated as a commercial activity.

What constitutes Local Lodging?

- a) **Definition:** Villas, Apartments or Guest Houses providing a) short term lodging (*less than 30 days*), b) for consideration, c) not meeting established criteria of an “*Empreendimento Turístico*” (Tourist Resort);
- b) **Defined Basic Standards:** 1) *Quality* and 2) *Safety*, as defined in regulations;
- c) **Registrations:** with the Fiscal Authority and the Local Council;
- d) **Exclusivity:** only registered “*Local Lodgings*” may rent to tourists, either by their owners or through agents;
- e) **Information Sharing:** The local Council must share the Registry with “*Turismo de Portugal*” which will help promote the offering.

Local Lodging Registration

The “*mera comunicação prévia*” (mere previous communication) is done online or through the local Council with the following information:

- Name, address and photocopies of identification documents of the Owner;
- Identification and location of the Property to be let;
- Type of Property and occupancy capacity of Property;
- Proof of legitimacy of Applicant;



Copies of the following documents should accompany the application:

- Copy of the Habitation Licence;
- Copy of the Fiscal Property Book (“*Caderneta Predial*”)
- Terms of Responsibility by the Owner;
- Business registration with Finanças (“*Início de Actividade*”).

Taxation

Gross income from tourism is assessed within the Simplified Regime (*Category B*) after an 65% exclusion. For *Non-Residents* the fixed rate of 25% applies on the net balance which should give a final tax bill of <4%. In accordance with Double Taxation Treaties throughout the EU, there may be no further reporting or assessment in the home country. Professional consultation is essential to be fully compliant. For *Residents*, the net taxable income is added to other sources and then total income is taxed at marginal rates (14.5% - 52%).

VAT

Like any business, you must register your business or VAT. If you are letting directly to holidaymakers under a Local Lodging license, you loose VAT exemption if your annual income exceeds €10,000. Tourist related activities currently charge the lowest rate (currently 6%). Business expenses add 23%. The difference between the two is either paid to the State or returned to the taxpayer. Quarterly declarations must be done electronically via Internet and are in Portuguese only. If your activity is in collaboration with the management of a Tourist Resort, your activity is falls under Category F and is exempt from VAT whatever your volume of business.