



Red Tape for Rental Income (Category F)

In our contemporary world of information sharing, gone are the days when a property owner could quietly rent a villa or apartment without reporting to the Tax Authorities. With 2015 tax reforms come new reporting requirements by landlords to *Finanças* who have rental income under Category F that assure that they pay any tax due.

New reporting obligations

a) ***“Modelo 2” - Registration of Rental Contract***

Mandatory Rental Contracts must also be reported via the filing of *Model 2*. This form identifies the parties, the property, the price and the terms of the agreement.

b) ***On-going Electronic Rental Receipts***

Electronic Receipt Forms must be issued on a monthly basis in duplicate. Reported via the *Finanças* internet system, copies are issued to the tenant with the second copy retained for the landlord’s records.

c) ***Annual Rental income Summary***

In January following the tax year, the landlord must report an annual summary of rents received via Model 44 (*“Comunicação Anual de Rendas Recebidas”*).

Existing reporting requirements have not diminished. The annual personal income tax declaration (“IRS”) still necessitates completion of Annex F. Declared expenses must be accompanied by original invoices that include both the name and tax number of the landlord.

Other compliance measures

In an effort to entrap non-compliant landlords, utility companies must now report periodically consumption data of supposedly empty villas and apartments to the Tax Authority (“AT”) to verify if there is effective occupancy.



Tax incentives

While tax breaks for mortgage interest have disappeared, credits for tenant-declared rent remain intact. In order to receive this tax credit, the tenant must declare the Landlord's fiscal number.

Deductible Expenses

Deductible expenses are now without limit for necessary expenses for conducting the rental activity. As a general rule, expenses related to the structural upkeep are admissible as opposed to those relating to how the dwelling is used. The following are examples of allowable deductions:

- Indoor and outdoor painting;
- Repair / replacement in plumbing or electrical systems;
- Energy and maintenance of elevators;
- Energy for lighting, heating or air conditioning of common areas;
- Expenses with doormen and hallway cleaning;
- Insurance premiums for buildings;
- Local taxes such as sanitation and sewage rates;
- Collective property security;
- Other condominium expenses;
- Property Rates (“IMI”).

Landlords cannot deduct:

- ▶ Construction work making structural changes in the property;
- ▶ Purchase of furniture and decorations for the dwelling;
- ▶ Air conditioning equipment installation;
- ▶ Capital improvements, such as extensions or installation of automatic irrigation systems.

Rental Guarantees

Payments from Rental Income Guarantees are taxable in Portugal and are declared in Category G.

VAT

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



Conclusion

On the positive side, demand and other underlying conditions have improved significantly in recent years in the Rental Market. However, with regulatory regulations firmly in place, landlords will now need to make sure that they are compliant with the mandatory bureaucratic procedures enforced by the Tax Authority (*Finanças*).

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