



REDUCED VAT ON HOME IMPROVEMENTS

If you are planning home improvements or major renovations on your house or apartment, you are likely to qualify for a significant tax break. Rather than paying the normal 23% IVA, most remodelling, renovation, restoration or conservation projects on your existing residential property qualify for a reduced VAT rate of 5% within Continental Portugal and only 4% in Madeira or the Azores.

Not included in this type of work is cleaning, garden maintenance or leisure equipment such as pools, saunas, tennis courts or similar recreational facilities.

As a rule, the reduced rate only applies to labour and not the materials applied. Nevertheless, if the value of the materials does not exceed 20% of the total cost of the project, the 5% VAT rate can be applied to the whole job.

The reduced VAT also applies to certain types of urban renewals projects, low-income urban housing developments and housing cooperative programmes.

Getting proper invoices from builders and contractors can sometimes prove to be a challenge. This is usually due to the cash prevalence of the underground economy. If it should prove impossible to get “*facturas*”, it would be wise at least to try to negotiate an appropriate discount.

Unfortunately, all the news is not good. While you may eligible to save on the Value Added Tax that you pay for renovations, home improvements can only be used to reduce Capital Gains Tax if they occur within the 12 years prior to the sale of the property. In other words, remodelling costs expire after 12 years for CGT purposes.

“The Taxman giveth, and taketh away” . . .