



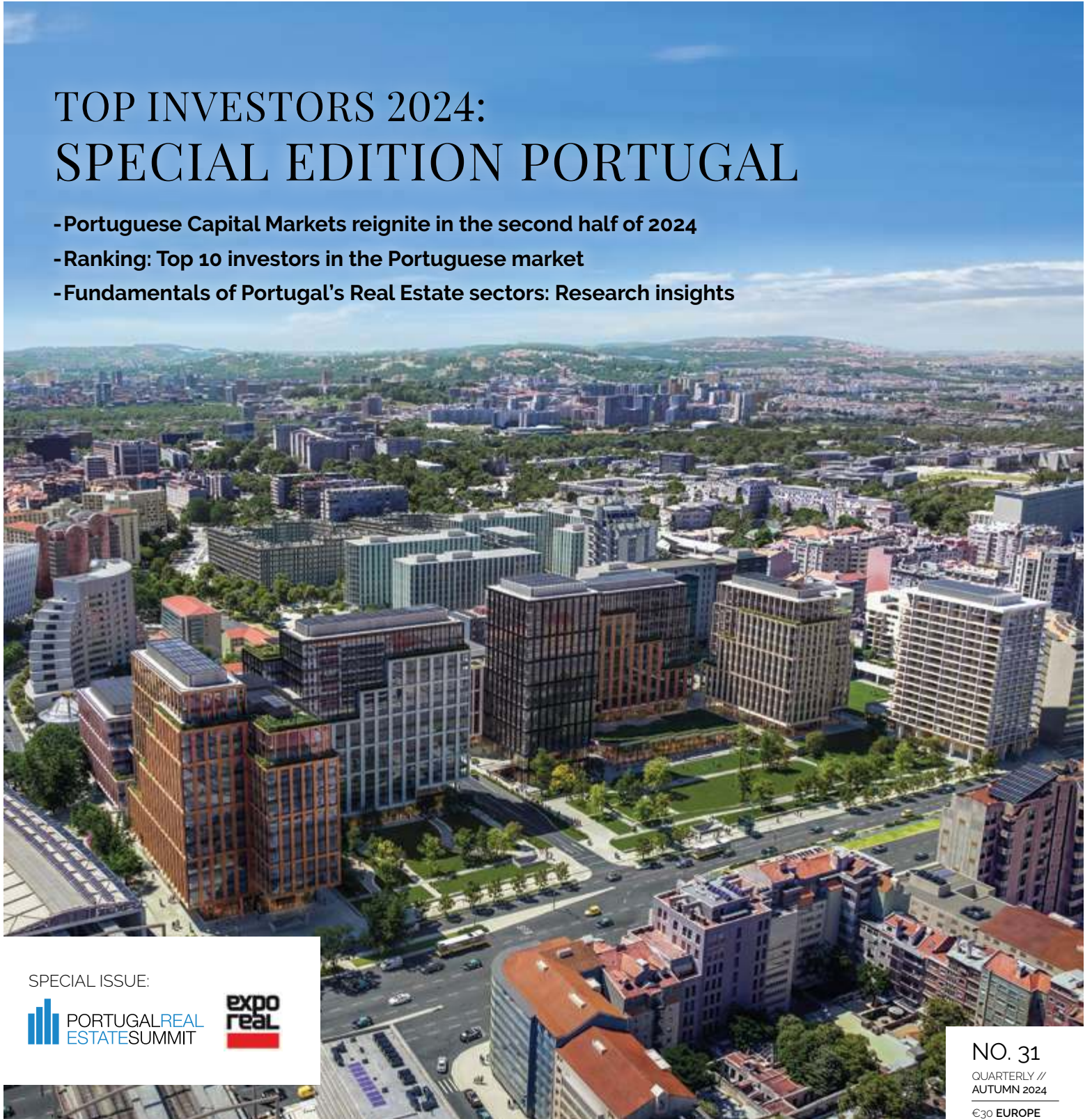
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UNLOCKING HOMEOWNERSHIP: PORTUGAL'S NEW TAX EXEMPTIONS AND THEIR IMPACT ON THE HOUSING MARKET

by: **Inês Ventura Salazar** | Principal Associate
Inês Meneses Lampreia | Associate



Over the past decade, Portugal has seen a significant increase in property prices, driven in part by foreign investment and a growing tourism sector. While this has been beneficial for the economy in many respects, it has also made housing increasingly unaffordable for many residents, particularly younger individuals and families.

In a significant move to support young real estate purchasers in Portugal, recent legislative changes have introduced new benefits for individuals under the age of 35 seeking to purchase their first home. The key aspect of this legislation is the exemption from the Municipal Property Transfer Tax (IMT) and Stamp Duty, designed to ease the financial burden on young purchasers. This article delves into the specifics of the new amendments, their implications, and the conditions attached to these benefits.

Understanding the IMT and Stamp Duty Exemptions

The IMT is a tax levied on the transfer of real estate in Portugal, traditionally representing a considerable expense for real estate purchasers. The recent amendments intro-

duced by Decree-Law no. 48-A/2024, of 25 July, effective from 1 August 2024, provide a full exemption from IMT for young purchasers purchasing a property valued up to € 316,272.00, which aligns with the fourth tier of the IMT rate scale. For properties valued between € 316,272.00 and € 633,453.00, a partial exemption is granted, covering the portion of the tax corresponding to the lower tier, thus reducing the overall tax liability.

Additionally, the exemption from Stamp Duty, another cost associated with property transactions, mirrors the conditions of the IMT exemption. This exemption applies to properties within the same value range and is a significant relief for young purchasers, enabling them to allocate more of their resources towards other costs associated with homeownership, such as mortgage repayments and home improvements.

This move is part of the government's broader "Building Portugal" (Construir Portugal) initiative, which aims to, among others, tackle housing affordability issues, particularly for younger generations who have been disproportionately affected by rising property prices and stagnant wages.

Conditions and Obligations

The exemptions offer significant financial advantages, but they are accompanied by strict conditions that beneficiaries must meet. Specifically: (i) the property must serve exclusively as the purchaser's primary residence for at least six years, meaning it cannot be leased or used for short-term accommodations during this time; (ii) the purchaser must not be classified as a dependent under the Personal Income Tax (IRS) code at any time during the moment of transfer of property and the following six years; and (iii) the purchaser cannot currently own, nor have owned within the past three years, any residential property or a portion thereof. Furthermore, if a married couple intends to purchase a property together, each spouse will be evaluated individually for eligibility. If one spouse does not meet the criteria, the other may still qualify for their portion of the exemption.

There are certain exceptions to these conditions, in which the homeowner does not lose the exemption. These include: (i) if the property is sold; (ii) if the homeowner must relocate more than 100 kilometers away due to a job change, provided the property continues to be used exclusively for residential purposes; and (iii) if there is a significant change in family composition, such as marriage or the birth of children, again with the requirement that the property remains exclusively used for residential purposes. These exceptions are particularly relevant in today's dynamic job market and the evolving needs of families.

Government Support and Broader Implications

Furthermore, aiming to improve access to home loans by mitigating the risks for lenders and reducing the initial financial barriers for young purchasers, under the Decree-Law no. 44/2024, of 10 July, the Portuguese State will provide a personal guarantee of up to 15% of the property value for the first property acquisition by young people who do not have sufficient equity to meet the mortgage requirements. The personal guarantee can be granted to credit institutions when the following cumulative conditions are met:

- The borrower(s) are between 18 and 35 years of age and have their tax residence in Portugal;
- The borrower(s) have an income that does not exceed the eighth tier of the income tax (IRS) rate scale;
- The borrower(s) do(es) not own an urban building or an autonomous unit of an urban residential building;

- The borrower(s) have never benefited from the referred personal guarantee
- The value of the transaction does not exceed € 450,000.00;
- The personal guarantee does not exceed 15% of the transaction value of the urban building or autonomous unit of an urban building; and
- The personal guarantee is intended to enable the credit institution to finance the entire transaction price of the urban building or autonomous unit of an urban building.

These measures are still pending the approval of the necessary regulations to fully implement Decree-Law no. 44/2024, of 10 July, until mid-September of this year.

In addition, Decree-Law no. 48-D/2024, of 31 July establishes exemptions from the fees due for the registration of the first acquisition of a property intended exclusively for primary residence for individuals aged 35 or under and for the registration of mortgages intended to guarantee the respective loan. It also provides a reduction in the fees due for the special procedure for the transfer, encumbrance and registration of real estate, by amending the Emoluments Regulation for Registries and Notaries (*Regulamento Emolumentar dos Registos e Notariado*), approved by Decree-Law no. 322-A/2001, of 14 December, in its current wording. The measure will be re-evaluated by the government in the first quarter of 2027.

Future Prospects and Considerations

The success of these measures will depend on several factors, including the overall economic environment and the availability of affordable housing. While the exemptions and guarantees offer substantial support to young purchasers, they do not fully address all challenges in the housing market. Two key concerns remain about increased demand to drive up prices in areas with limited housing supply and the impact on municipal finances due to reduced IMT revenue. To mitigate this, the government has proposed a compensation mechanism for municipalities that are particularly affected by the loss of IMT revenue.

In conclusion, while the legislative changes help removing some of the key financial barriers to homeownership, particularly younger individuals and families, the success of these measures will depend on careful implementation and ongoing monitoring to avoid unintended consequences for the housing market or municipal finances. ■