

NEWSLETTER

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REDUCING TAX BURDEN ON ACCESS TO FIRST HOME. MOTION FOR A LAW.

Access to housing in Portugal has become a growing challenge for many national families, due to high property prices and the associated tax burden. In response, the Legislative Assembly of the Autonomous Region of Madeira has presented a bill that aims to alleviate this problem through tax incentives aimed at the purchase of the first permanent home.

The proposal includes measures such as a reduction in VAT on construction and rehabilitation, exemption from IMI for 10 years and tax benefits on capital gains, with the aim of facilitating access to housing, boosting the real estate sector and promoting urban rehabilitation, albeit with an immediate impact on the state's tax revenue.



INTRODUCTION

When buying a property, a Portuguese citizen must deal not only with high property prices, but also with all the tax burdens associated with the purchase. As a result, while the property market has become difficult to access for many Portuguese families looking for their first home, it has become fertile ground for investment, whether for residential, tourism or business purposes.

In view of this current situation in the property sector in Portugal, the Legislative Assembly of the Autonomous Region of Madeira believes that "*The right to housing should be treated as a national priority, and urgent but rational intervention is needed in the property sector, through a policy of encouraging private ownership, where the role of the state is to facilitate citizens' access to their own homes, rather than imposing bureaucracy and excessive taxation*".

With this in mind, on 30 July, the Legislative Assembly of the Autonomous Region of Madeira presented Bill 23/XVII/1 to the Portuguese Parliament, which aims to reduce VAT and exempt first-time homeowners from IMI, as well as granting tax benefits to sellers of properties intended for first permanent home.

THE LEGISLATIVE PROPOSAL

By presenting this bill, the Legislative Assembly of the Autonomous Region of Madeira's main objective is to ensure that all citizens have access to housing. As this is a constitutionally established right, it is up to the state to ensure it by establishing measures to facilitate access to the property market for Portuguese families.

It is therefore proposed to achieve the above-mentioned objectives by adopting tax measures that are more favourable to access to first and permanent homes by Portuguese citizens and that, at the same time, can boost the real estate market.

The proposed tax measures focus on (i) the construction and rehabilitation of housing, proposing changes to Value Added Tax (VAT), (ii) property ownership, proposing changes to Municipal Tax on Onerous Transmissions of Real Estate (IMI) and (iii) the sale of property, proposing changes to capital gains tax (IRS).

Specifically, it was proposed:

- the reduction of VAT on the construction and rehabilitation of housing to the minimum rate
- exemption from IMI, for a period of 10 years, for those purchasing their first permanent home

- a 75 per cent reduction in capital gains for sellers of properties intended for their first permanent home

Based on the premise of the right to property, reducing the tax burden and simplifying processes, this bill aims to directly relieve buyers and at the same time stimulate the market through the rehabilitation, construction and circulation of property, while also bringing benefits to sellers.

THE CONSEQUENCES OF THE PROPOSED LAW

In the short term, the approval of this bill would result in a deduction of tax revenue for the state, since it will lead to a direct reduction in VAT, IMI and capital gains tax revenues. However, in the long term, these losses could be offset by the boost to the property and construction sector, as they could also mean the collection of other taxes, such as those more directly linked to the construction sector.

Despite the loss of tax revenue, with these measures it is considered that the state can improve the country's socio-economic condition, namely by:

- reducing dependence on housing-related social support, generating greater stability for families
- improving conditions for access to housing
- greater social inclusion, since these legislative changes are aimed at supporting lower income groups, young people, families starting out in life and other groups with difficulties in accessing housing
- reducing inequality by providing tax relief for families purchasing their first home
- revitalising run-down urban areas by promoting more efficient use of the country's existing housing
- greater environmental sustainability, since rehabilitating existing properties is more environmentally friendly than building new ones and reduces the occupation of green spaces
- boosting the property market by increasing supply and demand, promoting the circulation of properties and making the market more accessible
- stabilising property prices by bringing rehabilitated properties onto the market

CONCLUSION

The bill presented by the Legislative Assembly of the Autonomous Region of Madeira represents a concrete and structured attempt to respond to the difficult access to housing for Portuguese families.

Through changes to the existing tax measures, it seeks to ensure citizens' right to housing and revitalise the property market.

However, even though from a long-term viewpoint, investment in permanent housing can be translated into socio-economic benefits, this option immediately generates a reduction in the state's tax revenue, with no certainty that it will be recovered.

We can only wait for this proposal to be discussed in Parliament to see if it is a viable solution to the housing problem in Portugal.

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