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RECTIFICATION OF THE IMT RATE WHEN TRANSFORMING A RESIDENTIAL PROPERTY INTO A SHORT-TERM LETTING

“Although the purchase of a property used exclusively for residential purposes is, potentially, a tax-exempt purchase, depending on the value, if, within a period of six years from the purchase, the use of the acquired house changes, namely for the purpose of Short-term letting, the tax exemption will disappear.”

Anyone who buys a property, in Portugal, just for habitation, pays Municipal Property Transfer Tax (IMT). However, if the property is worth less than €101,917 and is only for residential use, the buyer will not have to pay IMT, as there is an exemption for residential property up until this amount.

What happens, however, if the property purchased for the purpose of housing is later transformed into Short-term lettings?

Although the purchase of a property used exclusively for residential purposes is, potentially, a tax-exempt purchase, depending on the value, if, within a period of six years from the purchase, the use of the acquired house changes, namely for the purpose of Short-term letting, the tax exemption will disappear. A 6.5% tax rate will then apply because the property is no longer for residential purposes.

For example, if a buyer purchases a property for €101,000, below the taxable limit of €101,917, is exempt from paying IMT due to the residential use of the property. However, after two years, the taxpayer applies for a Short-term letting license. By changing the use of the property, the applicable IMT rate changes and the rate of 6.5% will be payable.

This rectification is justified by the change in the final use of the property. As the Portuguese Tax Authority clarified in its [binding information](#) on the 10th of July, 2024, the benefits and exemption from any tax are applied taking into account the use made of the house and not just its licensing.

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Even if, when purchased, the house is licensed as an exclusively residential property, if its owner uses it as a holiday letting, then the exemption no longer applies. Therefore, within 30 days, the taxpayer must request a reassessment of the property's value, as outlined in article 34 numbers 1 and 2 of the IMT Code.

It is important to note that this correction to the IMT rate only applies to properties whose use change occurs within six years from the date of acquisition.

In essence, the purchase of a property for residential purposes can be an IMT-exempt transaction, depending on the value.

However, this exemption is not free from rectifications. It is essential to be aware that a change in the use of the property can result in significant additional charges if made up to six years from the date of purchase.

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