

# TAX

## REDUCED VAT RATE ON CONSTRUCTION AND REHABILITATION

VdA EXPERTISE



November 2023

**Circular Letter No. 25003, published on October 30, 2023, clarifies the changes made to items 2.18 and 2.23, both of List I attached to the VAT Code that lists goods and services subject to the reduced rate of VAT, by Law No. 56/2023, of October 6, which approves several measures in the housing sector, under the “Mais Habitação” (More Housing) programme.**

#### CONSTRUCTION AND REHABILITATION OF PROPERTY AS PART OF “SOCIAL POLICIES”

The Portuguese Tax Authority (“PTA”) clarifies that the scope of item 2.18 is extended to contracts for the construction or rehabilitation of residential properties for affordable rent, under the terms defined in an Ordinance issued by the Government member responsible for housing matters.

However, the application of the reduced VAT rate is dependent on the certification of the construction or rehabilitation works by the IHRU, Public Institute, or by the competent regional entities, that they are assigned to one of the purposes set out in this item and represent at least 700/1000 of the building in horizontal ownership, the entire building in total ownership or the entire building unit.

#### URBAN REHABILITATION

The PTA clarifies that item 2.23 is now only applicable to construction works for:

- i. rehabilitation of buildings; and
- ii. construction or rehabilitation of public collective use equipment,

when they relate to properties located in an urban rehabilitation area or are part of requalification and rehabilitation operations of recognized national public interest.

The PTA clarifies what must be understood as “rehabilitation of buildings” and as “collective use facilities”, excluding new building construction operations and urban rehabilitation works in public spaces that are not collective use facilities.

#### TRANSITIONAL MEASURE

The PTA also points out that, according to the transitional provision laid down in Article 50(9) of Law no. 56/2023, of October 6, the alterations to item 2.23 do not apply to the following cases:

- i. requests for licensing, prior communication or requests for prior information submitted to the municipality council before October 7, 2023; and
- ii. licensing or prior communication requests submitted to the municipality council after October 7, 2023, if they are submitted under the terms of a favorable prior information in force.

In these cases, the more encompassing wording in force prior to this amendment will apply.

#### ENTRY INTO FORCE

The changes made to items 2.18 and 2.23 are applicable from October 7, 2023.

Operations covered by the previous wording of item 2.23, which do not fall under the current wording or are not covered by the transitional provision, and for which VAT becomes chargeable, under the terms of the Portuguese VAT Code, on or after October 7, 2023, are subject to the standard VAT rate.

# Contacts



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