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The Ultimate Guide to Buying and Selling a Property in Portugal

Costs involved in the sale or purchase
of a Property in Portugal

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Guideline of the Purchase Process in Portugal

STEP 1

When having found your dream property, the terms and conditions agreed during the negotiations will be documented by the agent in the so-called Letter of Intent (LOI). Both parties have or will appoint a lawyer to whom the LOI outlining the agreed deal will be sent.

STEP 2

The purchaser's lawyer will request the property documentation from the vendor's lawyer in order to do his/her due diligence* and prepare the Promissory Contract (PC). The "Contrato de Promessa de Compra e Venda (CPCV)" identify the owners and buyers, describes the property, outlines the terms of the purchase, schedule of payments and completion date. Both buyer and seller (or their legal representatives via a Power of Attorney) sign the promissory contract and a deposit of 10% to 20% of the purchase price is usually lodged at this stage through the lawyer's client account.

After signing, should the buyer withdraw from the purchase, the deposit is non-refundable. If it is the seller that does not fulfil his contractual obligation, then he has to pay double the amount of the deposit to the buyer.

STEP 3

The transaction ends with the execution of the Deed of Purchase and Sale (Escritura Publica de Compra e Venda). This official deed of transfer of ownership is signed by both parties (or again their legal representatives via a Power of Attorney) at the local Notary and the purchase balance and associated taxes are paid.

STEP 4

The property will then be registered in the new owner's name at the Land Registry by the buyer's lawyer, who will normally do the same with all utility bills. Once this step is accomplished, the purchase process is complete.

(*) Due Diligence: the process of checking all the property documents ensuring there are no charges or encumbrances on the property and no legal snarls will come up after the transfer of the property.





The Buying Costs

What are the different taxes and fees involved in the purchase of a property in Portugal and what does each one entail?

Privately owned property (**)

IMT	Variable up to 6.5%. For residential properties w/ a value of over €1M, 7.5%
Stamp Duty	0.8% of purchase price
Legal Expenses	+/- 1% of purchase price
Notary & Registration Fees	+/- €1.500

(**) When buying a property held in a corporate structure the process is slightly different, as the buying costs. IMT, Stamp Duty and Notary Fees are not applicable. For more information, please do not hesitate to contact us.

1 IMT: Property Transfer Tax

Is applicable whenever property ownership is transferred. This tax is paid by the purchaser before signing the final deed of sale, as the proof of payment needs to be shown to the notary at the time of the deed.

The tax is paid on the higher of the property’s values, whether the purchase price or the patrimonial value (VPT - its rateable value, attributed by tax authorities).

The rateable value, incidentally, in most cases is much lower than the purchase price. The IMT will vary according to whether you are buying a permanent residence or a second home, a property for letting or a plot for construction.

a. IMT Rates for Permanent Residency

Purchase Price	Rate	Amount to Deduct
Up to €92,407	0%	-
> €92,407 to €126,403	2%	€1,848.14
>€126,403 to €172,348	5%	€5,640.23
>€172,348 to €287,213	7%	€9,087.19
>€287,213 to €574,323	8%	€11,959.32
>€574,323 to €1,000,000	6%	
>€1,000,000	7,5%	

b. IMT Rates for Non-Permanent Residency or Rental

Purchase Price	Rate	Amount to Deduct
Up to €92,407	1%	-
>€92,407 to €126,403	2%	€924.07
>€126,403 to €172,348	5%	€4,716.16
>€172,348 to €287,213	7%	€8,163.12
>€287,213 to €550,836	8%	€11,035.25
>€550,836 to €1,000,000	6%	
>€1,000,000	7.5%	



Example:

Purchase of a property for **permanent residence**, at a value of **€450,000**.

€450,000 x 8% = €36,000

Amount to deduct = €11,959.32

Total IMT to pay = €36,000 - €11,959.32 = **€24,040.68**

Note: On rustic lands a flat rate of 5% is applied, whilst on plots for building or commercial property the rate is 6.5%. Certain purchases can benefit from tax exemptions. Such cases include: the purchase of urban properties for urban rehabilitation purposes or the purchase of properties that have been listed as being of national/public/municipal interest, among others.

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Stamp Duty, Legal Expenses, Notary & Registration Fee

When you buy a property, stamp duty is charged at a rate of 0.8% of the ‘highest value’ of the property (purchase price or VPT - its rateable value, attributed by tax authorities). It is the purchaser’s responsibility to pay this duty prior to the signing of the final deed, so that they can show proof of payment to the notary.

When buying a property, it is advisable to seek legal advice from a lawyer. Their help will prove essential in the completion of the transaction as faultlessly and smoothly as possible. Legal fees normally vary between 0.75% and 1.5% of the purchase price of the property.

Notary and Registration fees are on average €1.500.

The Property Owner Taxes

IMI	From 0.3% to 0.45% (0.8% on rustic lands)
Legal Expenses	From 0.7% to 1.5%

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IMI – Annual Property Tax

IMI is levied on the property’s fiscal value (“rateable value of properties” VPT), which takes into consideration several criteria such as property age, size, commodities and location. Payable in two or three instalments per year, the property tax is fixed annually by each municipality and ranges from 0.3 to 0.45% (0.8% for rustic lands). Loulé urban properties are currently taxed at 0.3%.

2

AIMI: Additional to Property Tax

AIMI is the Portuguese version of a wealth tax and is basically a tax that complements the existing IMI Tax. This tax is applied to the entire VPT (the property’s rateable value, which is not the same as the purchase price of the property) on all properties (and plots for construction) valued above €600,000

owned by a taxable person. Simplifying the matter, a property owner, whose entire asset VPT (residential/ building plots) is more than €600,000 will pay a rate of 0.7% on the amount exceeding €600,000 (e.g.: if the VPT is €700,000, the property owner will pay 0.7% on €100,000). It should be noted that individuals have a guaranteed deduction of EUR 1,200,000 to the total VPT if the taxable person – married or common-law partners – choose joint taxation. As such, they will only pay AIMI if the final value, following deductions, exceeds the €1.2M.

When the entire VPT value is more than €1M and less than €2M, the rate applied is 1% (on the value in excess of €1M, while the 0.7% remains on the €400.000 difference between €600,000 and €1M).

On values above €2M, the tax is 1.5% on the value in excess the €2M (while the 0.7% remains on the €400.000 difference between €600,000 and €1M and the 1% rate on the value in excess of €1M up to the €2M)

The AIMI tax for corporates is 0.4% (**).

Example a):

One single taxable person - owner of properties with a total VPT of €1.7M

Up to €600,000 = 0

Above €600,000 to €1M = €400,000 x 0.7% = €2,800

Above €1M to €1,700,000 = €700,000 x 1% = €7,000

Total AIMI = €2,800 + €7,000 = €9,800

Example b):

A married couple – owners of properties with a total VPT of €4,2M

Up to €1,200,000 = 0

Above €1.2M to €2M = €800,000 x 0.7% = €5,600

Above €2M to €4M = €2M x 1% = €20,000

Above €4M to €4.2M = €200,000 x 1.5% = €3,000

Total AIMI = €5,600 + €20,000 + €3,000 = €28,600

(**) In case of urban properties owned by corporations that are allocated to the personal use of the shareholders, board members or members of any administration management or supervisory bodies, the rates applicable to individuals also apply.

The Seller Taxes

Capital Gains	28% (25% for companies)
Real Estate Fee	5% + VAT (23%)

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Capital Gains Tax (CGT)

Capital Gains Tax is due on profit obtained from the sale of an asset, over the difference between the selling price and the acquisition value (or construction costs) adjusted according to the inflation rates and net from documented costs incurred with the property.

The costs that can be offset against the tax are:

- Acquisition costs (IMT - property transfer tax, notary and registration fees);
- Selling expenses (real estate agent commission, energy certification and other documentation costs such land registry certificate and certified floor plans) and;
- Improvements/refurbishments costs (within the last 12 years previous to sale). Therefore, it is extremely important to keep all the receipts (****) when constructing or refurbishing a property.

Non-residents:

For non-residents, the full gain from the sale of a property in Portugal is taxable at a flat 28% rate.

If you own Portuguese property through a non-resident corporate (trust or company) and 50% or more of the company’s value comprises of property located in Portugal, the gain is taxable at a 25% rate (35% for “blacklisted” companies).

This only applies when Portugal has taxation rights provided by the double tax treaty with the company’s country. When there is no double treaty taxation (ex. companies based in UK), tax is payable in the corporate’s country.

Residents:

For residents the tax is levied only on 50%, which is added to your annual income and taxable according to the bracket applicable to your overall income (IRS 14.5% - 48%). Bear in mind that you can avoid this tax if you reinvest the proceeds into another main residence in Portugal or EU/EEA territory – between 24 months prior and 36 months after the sale. If the reinvestment in the new property is lower than the total sale, than the tax will be calculated pro-rata. Since Brexit, you won’t be able to benefit from this exemption if you intend to reinvest into a main home in UK (nowadays classified as a non-EU/EEA asset).

(****) Please note that in Portugal, invoices must have certain information, such as invoice number, date, name and fiscal number of the client as well as of the service/product provider, and the correct address of the property.

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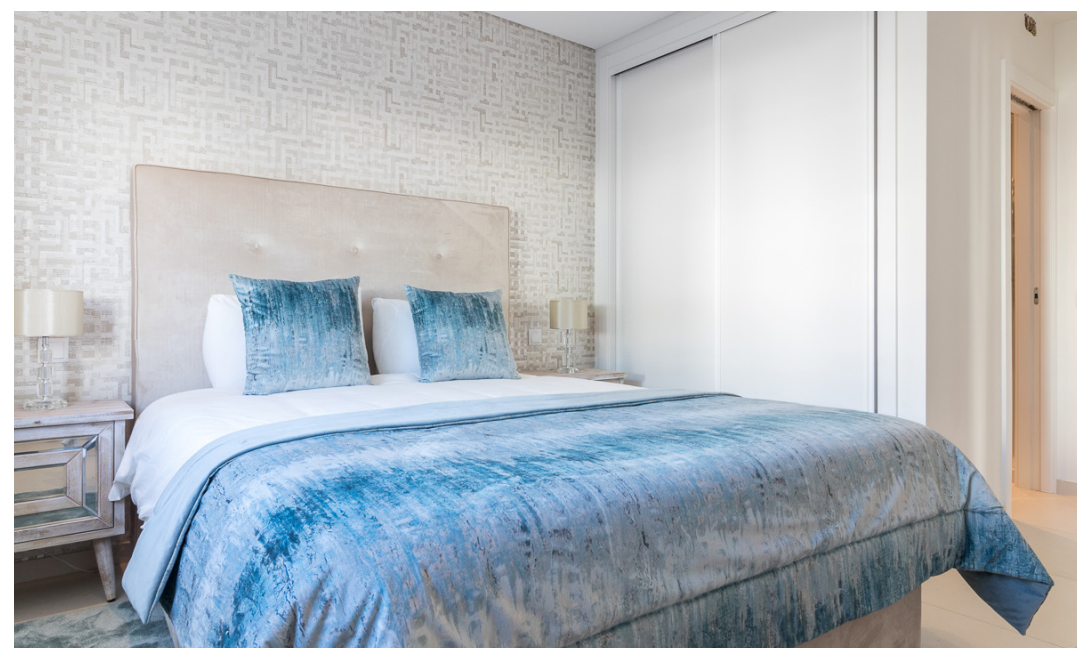
Real Estate Agency Fee

It is important to ensure that you are dealing with a properly licensed real estate agency. You can always confirm the license number of the agency and its validity in the [IMPIC website](#).

The real estate commission is normally 5% + VAT at the legal rate in force. As previously informed, this expense can be used to reduce your capital gains when selling the property.

Other Taxes

Inheritance Tax: There is a tax exemption for inheritances to close relatives (parents/ children, spouses). On gifts, you will have to calculate a 0.8% stamp duty tax on the VPT value. Inheritance or gifts to other individuals will be subject to a flat 10% stamp rate tax.



If you would like more information on buying a house in Portugal feel free to *contact us*.

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