

PROPERTY PURCHASE

WHAT YOU NEED TO KNOW

Why buying in Portugal?



RME LEGAL

Interest in Portugal real estate investment has been steadily increasing over recent years. The dynamic Portuguese market has a lot of variety in opportunities, from beach houses to luxury resorts to historic townhouses.

Portugal's property market is booming, and expats are catching on. From year-round sunshine to fantastic living standards, excellent cuisine, and a high-quality healthcare system and schooling, international families are purchasing property in droves. In fact, 2020 has seen a rise in the volume of real estate transactions, setting Portugal's property market up for success.

Low living costs and high quality of life have drawn professionals and businesses from all over the world, which, combined with consistent growth in the tourism sector, has seen the price of real estate in Portuguese capitals enjoy a steady increase over the past few years.

The Portuguese government has also proven itself to be very business-friendly, bringing in several measures to encourage investment and incentivize growth. The non-habitual tax regime and the Golden Visa program are among the most successful and together have brought billions of euros worth of real estate investments.

Portugal is the third safest country in the world, according to the 2020 Global Peace Index, falling just behind Iceland and New Zealand. Considered a stable country, politically and economically, with a low crime rate, Portugal has many desirable qualities for investors. A bonus is that English is widely spoken.

Can You Buy Property in Portugal as a Foreigner?

The Short Answer is **YES!**

There are no restrictions for foreigners who want to buy a home in the country. The Portuguese government incentivizes foreigners to invest in real estate property in Portugal.

If you're a non-EU citizen and you invest in property worth a certain value, you can qualify for a Golden Visa residence permit in Portugal. This permit allows you to live, work, and study in Portugal, and travel freely across the Schengen area. In five years, you can also qualify for permanent residence or citizenship in Portugal.

Buying a house in Portugal

First and foremost, to purchase a property in Portugal, whether as a resident or non-resident, you will need to acquire a **Portuguese Tax Number (NIF)**. You can obtain this at any government tax office. To obtain the tax number you will need to show proof of your address and your passport, and you may be required to appoint a tax representative. You will also need a tax number to **open a Portuguese bank account** (advisable when buying a property to avoid dealing with frequent changes in the exchange rate).

Here's a quick breakdown of the steps you'll need to take to successfully buy a property:

Step One: Work out whether you want to take a mortgage and what plan suits you and get an offer in principle, so you have a budget in mind.

Step Two: Engage with a part for legal advice to help check contracts and make sure the property is surveyed, once that is done, you can make an offer to make the seller.

Step Three: Sign a Contrato-Promessa De Compra e Venda (Promissory Contract of Purchase and Sale) with legalized signatures with a notary, a lawyer or a solicitor (a mandatory formality for the contract to be deemed as valid), which offers a guarantee to both parties while you wait to sign the deed. For example, if you're waiting on mortgage approval or construction. That's usually when you pay for your deposit, which ranges from 1% - 10% of the purchase price.

Step Four: Sign and notarize the property the Escritura Publica De Compra e Venda (Deed of Purchase and Sale) and have the property registered in your name. This is when the remainder is to be paid.

Step Five: Update the ownership with all public records.



What are the requirements to buy a house?

To complete the purchase of your home, it is necessary to present some documents that identify the parts and the property and confirm the legitimacy of the owner and the buyer, namely:

ID document with photo.

Portuguese tax number (NIF).

The property's energy certificate.

Payment of the stamp duty.

Land register (from Land Registry office and Tax Office).

Mortgage agreement (if you chose to have one).

Other specific documentation is required depending on the type of property and its own unique conditions.

Taxes and fees for non-residents when buying property in Portugal

The difference between buying a house in Portugal being a resident or not depends on the purpose of the house. Residents may buy a property to be their **permanent habitation or second home** (most frequently scenarios) and non-residents will not be being a property for permanent habitation – unless they move their tax residency within the legal deadline for the effect. These, and other possible circumstances, affect the property taxes you'll have to pay.

Expats pay taxes for property purchases at the exact same rate as you would as a local. However, income deriving from real estate in Portugal may have a different tax treatment depending on the tax residence of the owners. Taxes in Portugal can fall at the time of purchase or throughout ownership of the property.

Taxes **BEFORE** the purchase of the property:

- a) Property purchase tax (IMT)
- b) Stamp Duty
- c) Deeds of sale
- d) Imposto sobre a Concessão de Crédito (in case of a mortgage).

Taxes **AFTER** the purchase of the property:

- a) Municipal Property Tax (IMI)
 - b) Additional to IMI (AIMI)
- May impact your personal or family budget

1. Property purchase tax (IMT)

The (IMT) Imposto Municipal Sobre as Transmissões Onerosas de Imóveis (Municipal Tax on Onerous Transmissions of Real Estate) is a property transfer tax paid whenever is a financial transaction for the purchase or sale of a Portuguese property.

The tax must be paid before completing the purchase and ranges from 0%-10%.

The amount varies depending on the purchase price, the type of property (i.e. rural/urban), the location (continental Portugal, autonomous region) in addition to whether the property is to be the primary or secondary home.

IMT for other type of properties:

- i. Property for housing other purposes (e.g. vacation, rental) up to 6%.
- ii. Other urban buildings, store, office, warehouse, parking, and storage: 6.5%.
- iii. Land for construction: 6.5%.
- iv. Rustic or agricultural land: 5%.
- v. Buyer resident in a tax haven (except natural persons): 10%

2. Stamp Duty

Imposto do Selo (Stamp Tax) is an additional transaction tax that may need to be paid at the time of purchase

and, according to the Portal das Finanças, is for "all acts, contracts, documents, titles, papers and other legal

situations provided for in the General Table". If you buy your house with your own capital, it's worth keeping the Stamp Duty in mind.

It is charged at a rate of 0.8% of the value of the property.

3. Deeds of sale

The purchase/sale of a property in Portugal also implies some costs for the paperwork, notably the title deed.

This can be drawn up and signed in a Notary's Office or in a Land Registry and the cost varies between different service providers.

You pay these together, and they usually cost from 0.2 percent to 1.2 percent of the property value.

4. Tax on mortgage

If you get a mortgage take into account the tax due on mortgages in Portugal, the Imposto sobre a Concessão de Crédito.

This tax is charged by the bank and is levied on 0.6% of the financing value.

1. Municipal Property Tax (IMI)

The (IMI) Imposto Municipal sobre Imóveis (Municipal Property Tax or Immovable Property Tax) is an annual tax that is determined by the municipality that your property is located in.

The amount is usually between 0.3% and 0.5% for urban properties and 0.8% for rural properties. The IMI rate is established annually by the municipality.

Note that the IMI is levied on the tax value of the property and not on the price paid for the property.

2. Additional to IMI (AIMI)

AIMI applies on the real estate assets of individuals and companies.

It covers housing buildings, land for construction and undivided inheritances, that is, which have not yet been shared among the heirs.

In general terms, after determining the taxable amount (based on the tax value of the property), the following rates apply: 0.7% of the property value for those who have an estate worth between 600,000 euro and one million euro; 1% for property valued between one million and two million euro; 1.5% if the total value exceeds two million euro.

How much deposit do I need to buy a house in Portugal?

You'll need capital to pay around **20% to 30% of the sale price**, starting with the deposit to be paid when signing a Promissory Contract of Purchase and Sale (Contrato de Promessa de Compra e Venda), if applicable.

Does buying a house in Portugal give you residency rights?

It can give you residence if you apply for a Portugal Golden Visa. To be eligible, you must be a non-EU citizen and have at least € 500,000 to spend on a property.

Check out our detailed guide on the Portugal Golden Visa.



Mortgages

Although being a foreigner usually has no influence on buying a house in Portugal, it does when it comes to getting a mortgage. If you are not a resident, this impacts how much you can borrow. Non-residents will generally only be offered loans up to 65-75% of the value of the home or the sale price (whichever is lower), while tax residents can borrow up to 90% of the sale price (whichever higher). Most banks will also not allow your existing debts and your new mortgage payments to go over 35% of your monthly income. Portuguese banks will usually give you a mortgage that runs for 25 years, sometimes up to 30.

When you've chosen the mortgage product that works best for you, you'll need to make your application. As in most places, this'll mean that you must arrange a stack of paperwork and visit the bank in person to get approval.

In many cases you'll have to pay a hefty application or 'commitment' fee (in the region of €600 or more) to secure your mortgage. Each bank will operate slightly differently.

There are two criteria that the banks check out when processing your mortgage request: **Your financial position and your property evaluation.**



→ Financial Position

To assess your financial position, the bank will require proof of your income or earnings, such as:

- i. Salary income
- ii. Income from investments
- iii. Pension income
- iv. Dividend payments
- v. Rental income

The bank will assess each applicant's net income; additionally, they will ask for information about any pre-existing debts and your employment history. This information is to assure the lender that you can make the monthly payment on your mortgage.

→ Property Evaluation

The bank will hire an engineer to evaluate the property you decided to purchase. The Portuguese banks currently lend between 60-80 percent of the property value.

Also, when applying for a mortgage loan, it's required by law in Portugal the need to acquire Home and Life Insurance

Mortgage-related fees that you might need to pay:

- a) Deed registration: 1%
- b) Mortgage arrangement: 1%
- c) Mortgage administration: 1%
- d) Non-refundable commitment fee: around €600
- e) Survey and appraisal: €500–€800
- f) Legal fees (optional): at least €1,000



Documents to apply for a Portuguese mortgage:

1. ID document with photo
2. Current proof of residency
3. Proof of income
4. Documentation of existing rent, mortgage, and debt obligations
5. Bank statements (last 60 days)
6. Proof of deposit (last 60 days)
7. Property details (Contract, property plan, registry, and tax documents for the property or more)
8. Insurance policies

Final notes about legal procedures:

- Investigate the the property's financial and tax status.
- Find out whether the property is free of any liens or encumbrances (mortgages, attachments, usufruct, rental agreements, etc.). This information is available at the Land Registry Office (Conservatória do Registo Predial).
- Negotiate the Promissory Contract of Purchase and Sale to protect you from unforeseen events related to the properties, the owners or even the financing.
- After the transaction's details have been agreed with the seller, and until the house is yours, you should:

1. Sign the promissory agreement

2. Execute the warranty deed, paying Property Transfer Tax (IMT) and Stamp duty, if applicable. Update the property's registry in the Urban Land Registry (Matriz Predial Urbana) and request exemption from Municipal Real Estate Tax (IMI) at the local tax office or tax authority website (Portal das Finanças). Register the purchase or turn provisional registries into definitive registries at the Land Registry Office (Conservatória do Registo Predial).

