Grant Thornton

TAX NEWS

Bill Proposal by the Socialist Parliamentary Group to Promote Affordable Housing Rentals

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The Socialist Parliamentary Group has presented a bill to the Congress of Deputies with a series of fiscal, administrative, and regulatory measures aimed at incentivizing affordable rentals. This initiative seeks to mobilize vacant homes, curb speculative use of real estate assets, and promote stable rental arrangements, particularly for young people and vulnerable groups.

Below is a summary of some of the key measures included in the proposal.

1. Personal Income Tax (IRPF) Reform to Encourage Rental of Primary Residences

Increased percentages are introduced in the tax reduction applicable to positive net income derived from the leasing of properties used as housing. The regime is structured with different rates based on the characteristics of the rental agreement:

The tax reductions in Personal Income Tax (IRPF) for main residence rentals vary depending on the contract conditions and tenant profile. The maximum 100% deduction applies when a new contract is signed with a rent that is at least 5% lower than the previous one and below the official reference index (set by the Ministry of Housing and Urban Agenda). This is followed by a 95% reduction if rented to young people in stressed areas, 90% if it is only a stressed area, and 85% when the tenant is a young person (aged 18-35). A 70% reduction is also foreseen if the property is allocated to social rental through public or non-profit entities, and 60% if the dwelling has recently undergone energy rehabilitation. A general 50% reduction remains in other cases.

In addition, the deduction for energy improvement works is maintained until December 31, 2025.

A progressive imputation scale of deemed real estate income is also introduced for non-productive urban or rural properties, which can reach up to 3%, to penalize the holding of vacant housing and encourage its availability for rent.

2. Amendments to the Tax Regime for Real Estate Investment Trust (REITs)

The tax regime applicable to SOCIMIs is amended, establishing a new 25% tax rate (instead of the current 15%) on undistributed profits derived from residential rentals. However, the law provides for reductions in this tax under certain conditions:

- 50% reduction: if more than 60% of the housing stock of the entity is allocated to affordable rental.
- 100% reduction: if, in addition, the undistributed profits are reinvested in new affordable housing within three years.

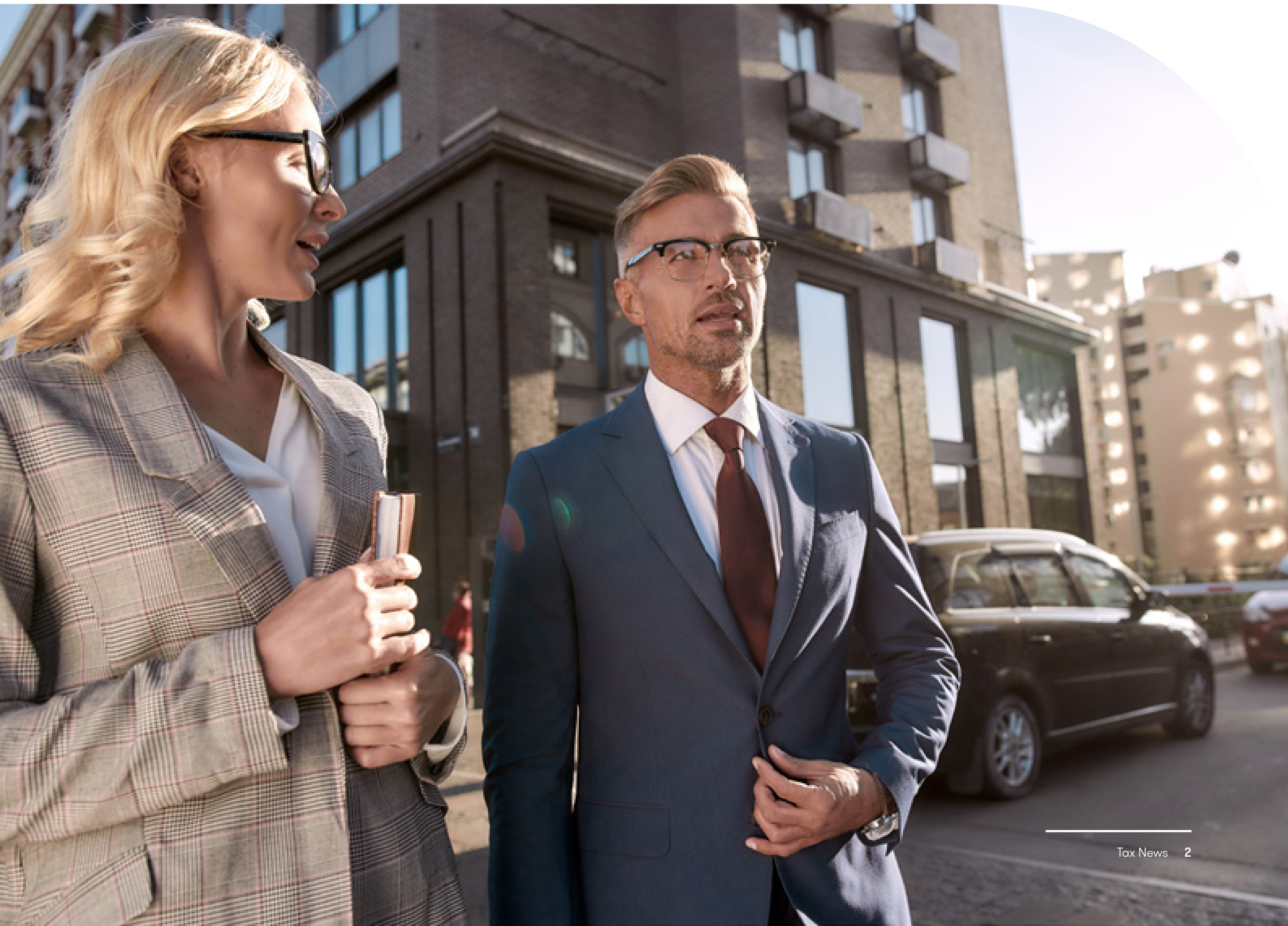
A dwelling is considered to be rented at an affordable price when the annual rent does not exceed 26,400 euros or the official index set by the Ministry of Housing. In addition, it must meet at least one of the following criteria: be classified as protected housing or ensure that the tenant's financial effort (rent plus basic utilities) does not exceed 30% of their household income, in accordance with Law 12/2023 on the Right to Housing.

A transitional regime is established to allow SOCIMIs to gradually adapt between 2025 and 2027, with thresholds of 20%, 35%, and 50%, respectively, until reaching the 60% target in 2028.

3. Tax Treatment of Short-Term Tourist Rentals

The VAT Law is amended to define as non-exempt tourist rentals those short-term leases (up to 30 nights) in municipalities with more than 10,000 inhabitants, even if no hotel services are provided. These contracts will be subject to 21% VAT starting from the first quarter after the law comes into effect.

This measure aims to mitigate the impact of tourist activity on the urban residential market and anticipates the future tax responsibility of digital platforms in collecting the tax.



4. New Tax on Real Estate Acquisitions by Non-EU Residents

A new state tax is created, complementary to the current Property Transfer and Stamp Duty Tax (under regional jurisdiction), which imposes a 100% rate on the acquisition of real estate in Spain by individuals or entities not residing in the European Union, as well as on the establishment or transfer of real rights over such properties, except for guarantees.

The taxable base will be the highest among the market value, the cadastral reference value, and the declared price. The resulting total amount may be deducted from the amount paid for the Tax on Property Transfers and Stamp Duty that was levied on the same transaction.

This measure aims to curb speculative access by foreign capital to the Spanish real estate market and protect residents' right to housing.

5. Increase in the Tax on the Increase in Urban Land Value (Municipal Capital Gains Tax)

A new table of maximum coefficients is introduced to apply to land value, resulting in an increase over the current rates.

This legislative proposal marks a significant shift in fiscal policy related to the housing market, introducing incentives for stable rentals while discouraging real estate speculation. If approved, it will have a notable impact on property owners, investors, REITs, and tourism operators.

Fernando Vírseda
Tax Partner
Fernando.Virseda@es.gt.com

Eduardo Tapia
Tax Partner
Eduardo.Tapia@es.gt.com

Ània Costa
Tax
Ania.Costa@es.gt.com

GrantThornton.es