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_ACCOUNTANTS_AUDITORS_TAX CONSULTANTS

ADVANCE

_A bumper year

In our last edition of Advance we forecast a substantial change in tax legislation in Spain, for the second half of the year. Little did we know that the changes where going to be as complex and far reaching as they have turned out to be, and that so many other financial repercussions where going to come about.
This issue, which would normally have been published in August, has therefore been delayed to ensure that we are in a position to report on all the above matters.
We are delighted to welcome the clients and friends of Enzo Taddei, who's business was recently incorporated into this practice. Enzo has become an external consultant to our firm and we look forward to a long and fruitful relationship with his clients.
Also in this edition we include various articles on financial services which we hope you will find of use.
Time moves on of course and so does Spain, those of you who have experienced the delights of having to queue for hours outside a police station in Spain in order to obtain an NIE number or a residence card, will be pleased to learn that a large part of government related bureaucracy is being computerised. During the course of next year we will see a lot of official business being changed and direct internet access becoming available. The pioneering entity is the land registry where internet access is now available and you can actually obtain a digitalised copy of your plot of land. It is expected that this will lead to faster title deeds being produced. Let's hope it works!
Marbella, has had its fair share of bad press in recent months, largely due to the property scandals of the last 15 years. A caretaker council is now in place, consisting largely of professional people, and it is hoped that most of the cleaning up will be completed before next year's local elections.

Finally, I would like to thank all of you who regularly read our newsletters for your encouragement and support. It's good to know that our publications are contributing to the expansion of knowledge.

Our best wishes for the New Year

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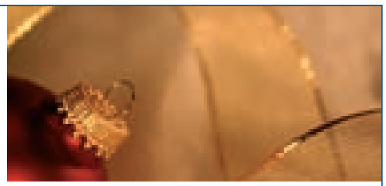

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_New Hospital for expats in spain

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A new £32 million private hospital in Madrid equipped with the latest technology could attract expatriates from a large part of Spain.
Most of the 230.000 outpatients a year at La Moraleja Hospital in the northern part of the capital will be customers of Sanitas.
Like its owner Bupa, which bought Sanitas in 1989, the Spanish company is both an insurer and healthcare provider. Sanitas has 1 million insured customers and a chain of 450 medical centres. The new hospital employs 350 people, including English-speaking doctors. They expect to be treating expatriates from as far afield as the Spanish costas. It is a general hospital with special focus on obstetrics, gynaecology and paediatrics.
If you attended purely as a private outpatient you would pay for your services there and then. As an in-patient, the admissions people would work out a way for you to pay later. They might require a deposit in advance. It's normal practice if you are not with an insurance company.
The hospital, spread over four blocks around a central square, is designed to maximise light and ventilation. Rooms overlook a park. Patients can communicate with nurses by wireless telephone.
Staff will be able to view digital images of diagnostic tests anywhere in the building.
Blood test results, x-rays and other diagnostic tests will be sent automatically straight to the patient's home.
Brokers say Spanish insurers such as Sanitas, are good value at around a third

of the price of international schemes, so there is no point buying international cover if you spend most of your time in Spain. One disadvantage is that Spanish schemes tend to have low benefit ceilings and often restrict treatment to certain locations which can be inconvenient.
Bupa claims strong sales for its Health Plan, aimed especially at expats in Spain. The scheme, which is cheaper than full international insurance, covers policyholders in Spain and their home state, which in practice is likely to be Great Britain or another north European country.

_Property issues

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Reverse mortgages
With the advent of the popularity of equity release schemes in northern Europe Spain is in the process of approving legislation which introduces the concept of reverse mortgages, a product that will undoubtedly make the second or retirement home market more attractive to northern investors. The basic structure of this new product is similar to the US model, and includes:

_ A charge over the property, in favour of the bank, to cover the amount borrowed, subject to valuation.
_ The borrower must be at least 65.
_ A one off lifetime payment of the amount agreed, or it will be possible to also receive this by way of an annuity.
With both options the amounts received will be exempt from income tax and from stamp duty.
_ The taxpayer retains the right to live in the property during his lifetime, even if the annuity period has been exhausted.
_ On the death of the taxpayer his heirs will be able to opt for either:

• The handing over of the property to the bank.
• Or recovering clear title to the property by repaying the loan plus the interest to the bank.

Reduced mortgage costs
Under pressure from consumer associations the government will shortly be introducing legislation aimed at curtailing some of the costs traditionally associated with mortgage borrowing:

_ Notary and registry fees in relation to the cancellation of a mortgage will be reduced, by an estimated 40%.
_ The maximum rate of commission chargeable by banks for early cancellation will be reduced to 0,5%.

_To VOIP or not to VOIP?

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Should this really be the question?
In pre-internet days people made phone calls. Did we ever ask what technology we were using? All people thought about was whether the call was clear and how much it was costing. If there was a problem you called the phone company. Business telecoms and IT are becoming more integrated and a more useful question would be what do I want from my telecoms sytem/provider. There could be a number of answers to this:

_ To save money
_ 100% reliability
_ Cheaper calls within Spain
_ Cheaper international calls
_ Integrated voice and date services
_ To get rid of Telefonica
_ To know each phone number that calls us
_ To integrate my database with the incoming caller number
_ To have online switchboard services
_ To link offices for switchboard extensions and data
_ To have one provider to deal with who will manage everything
_ Etc...

Depending upon what your answers are to these questions are there will exist a number of solutions from traditional telephony to the latest managed IP networks.
The VOIP companies such as Skype, Vonage etc.. have good pricing but cannot guarantee call quality – there is also a shift in the responsibility for the quality of the call. With a traditional telecoms provider the responsibility for call quality rests firmly with the telecoms provider. You will find that with many VOIP providers there is now a divided responsibility with equipment in your office, an ADSL connection not related to the VOIP, and the internet where there are no voice quality guarantees or prioritisation of voice traffic.These systems give sufficient quality for a private call but are they good enough for businesses? Do they create data network security problems?
In terms of call pricing VOIP is very cheap, however it is now possible to buy phone calls from traditional carriers at similar or slightly higher rates and with better quality. Maybe if you are mainly interested in call pricing it is worth negotiating with your calls provider. Managed VOIP is now available. To manage VOIP the ADSL provider needs to be able to prioritise the voice traffic over the data traffic and to run their own IP network.
BT Spain has just launched the first service of this type in Spain BT VIP. With this type of servie the advantages of IP can be more fully utilised, such as online switchboard services, the need for only one line with ADSL on which up to 8 phone calls can be made at a time, reducing line rental and maintenance. Offices can be linked with remote extensions being called in the same way as local extensions and one price being paid for internet, all national fixed line calls, the switchboard services, and data connections – on a private IP network rather than on the Internet - quality is guaranteed. Other services such as fixed-mobile convergence will follow (BT Fusion).
VOIP is certainly the technology of the moment, however I would suggest that if you are either reviewing your communications or opening a new business or office you should be asking firstly what you want to achieve and then reviewing all of the options available.

_Financial Advisory services in Spain

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The new EU directive on financial services which is due to come into force throughout the union in November 2007 will have a substantial impact in the way these services are provided in the future. Spain is seeking to prepare for these changes and IFA (Instituto Financiero Anaf) one of the Spanish institutes of financial advisors, has recently signed an agreement with the Securities & Investment Institute from UK to promote the ICFA qualification in Spain. Whilst this new European directive seeks to liberalise the financial services market, nevertheless it recognises the need to promote common professional standards for the market players.

_US investment in Europe marches on

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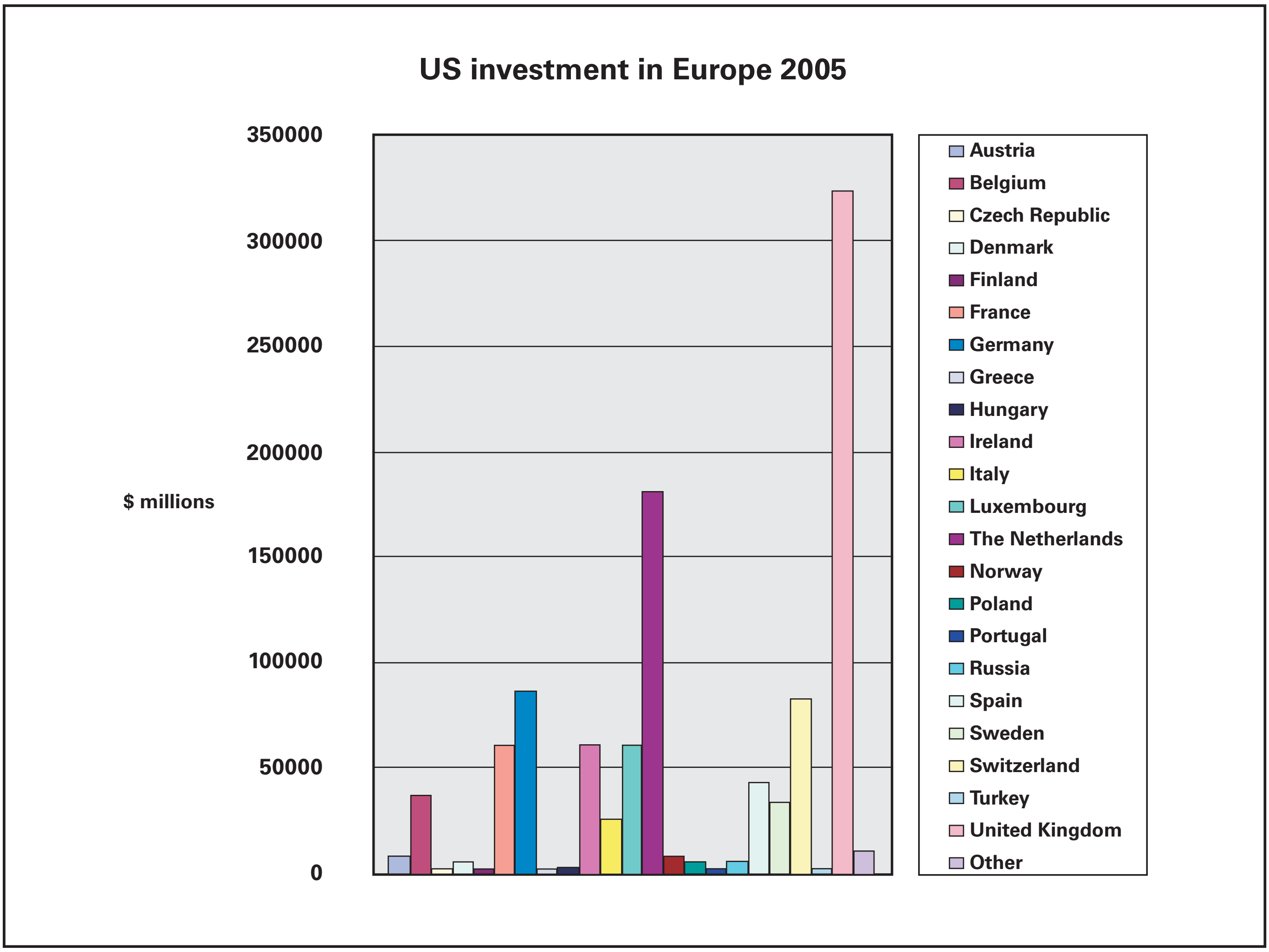
Recently produced statistics from the US Department of Commerce, Bureau of Economic Analysis, show that in excess of 1 million million US$ were invested in business across Europe in 2005. This represented over 50% of all outward investment from the US and it is continuing to grow - despite a weak dollar, US business remains very positive about opportunities in Europe.
In recognition of the associated business opportunities from this degree of investment, our joint venture business, Bridgehead (Europe) Limited, (BEL), has increased marketing activities in the US and during August has signed a major contract with Administaff Inc. Administaff are headquartered in Houston, Texas, with offices throughout the United States. They are a PEO (Professional Employer Organisation) and provide a complete outsourced HR solution to their clients. Whilst traditionally their business has been within the US only, increasingly, their clients are asking for overseas assistance and this is where BEL comes in.
With offices in the UK, Spain and The Netherlands, BEL is able to provide a complete HR solution, including payroll, employee benefits provision and HR management – exactly the services Administaff clients have enjoyed in the US. However, through our wider network, we are also able to provide the same services in many other country locations.

Whilst employees are a key element in any business, it is associated advice, which will ensure success. All of these services are available from BEL, and for structural clients with international needs, BEL is a single point of contact for all their requirements.
www.bridgeheadeurope.com – BEL will be working with IAPA firms throughout Europe on this project.
In addition, with effect from early January, BEL will also have a full time employee in the US who will have responsibility for existing client relationship management, networking and new business development. This will enable BEL to expand further and to grow the network of professional connections and to increase the international client portfolio.



_Managing wealth and expectations!

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In 2005 the US stock market increased, but for those of us investing from outside the US, the ultra weak dollar had a major impact and the effect was a decline in value in local currency terms.
In Europe we saw real growth and a steady Euro, with a resurgent pound. UK investors were rewarded with double-digit returns, the FTSE All share rose 18% over the year, whilst markets in Germany, France and Spain also posted strongly positive returns.
The problem is that expectations from investors are now unreasonably high, the dire investment conditions of 2001/2 may remain in the memory, but too many investors regard recent performance as a return to the norm, but with interest rates globally relatively low and a decelerating US economy now almost a certainty, we have to ask the question of where will future growth come from?
It is essential now, more than ever that you consider your timescale as an investor, and the degree of risk that you can tolerate. Aggressively invested funds tend be even more aggressive in flat conditions, so volatility can and often does escalate. If you have a fixed or short timescale- be wary. Many of us have been surprised by the resilience of many stock markets during what has been an indifferent summer economic climate.
Diversification is key; your portfolio needs

to reflect the current climate. What held greatest prospects for you last year, will probably not this year, and could be the weak link? If, as many of us suspect, equities will find the next twelve months more of a struggle, ensuring that you have exposure to other asset classes is essential. There are very different cycles in the investment market and so spreading risk has always been the best approach. If Europe and the UK follow the US lead in raising interest rates substantially, equity values could suffer, but with a delicate balance to be maintained in sustaining growth and remaining competitive internationally. - Do we really want the Euro and Pound to strengthen further?
There is no single solution-wealth management is an inexact science as we work with too many imponderables. Tax planning, as part of your investment strategy, will bring some certainty added to this a touch of realism and clarity of your objectives and timescale, and we should have a successful recipe.

_The end of the asset holding Company tax regime

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This special tax structure was born in 2002 and became active in January 2003, particularly for holding property assets (commonly known as PHCs'). The advantage of registering a company under this classification was none other than to take advantage of a much reduced rate of Corporation tax (15%).
In order to qualify for this regime it was necessary to meet certain criteria in relation to asset use, number of shareholders and types of shareholders.
The government of Spain has now introduced legislation to eliminate the effective application of this special regime. In future all companies will be subject to Corporation tax at 25% for small companies (profits of up to 120.202,41€) and 32,5% for larger companies (30% from 2008).
In order to facilitate the possible winding up of the PHC companies, transitional measures have been introduced. These seek to reduce the tax burden on the shareholders that could arise in normal circumstances as a result of a liquidation and distribution in specie to the shareholders of the underlying property.
These measures can be applied to all PHCs who so filed for accounting periods starting after the 1 January 2005. The agreement to liquidate and windup must be taken during the period from 1 January 2007 to 30 June 2007. The company will then have a further 6 months to formally carry out the liquidation and winding up.

Transitional measures

If your company qualifies for the above you will be able to avail yourself of the following tax breaks:
_ 1% Stamp Duty on the value of the assets distributed.
_ Exemption from local authority CGT.
_ Reduced notary and registry fees.
_ No CGT on the theoretical gain arising between the book value of the assets and their market value, provided the shareholders (individuals or companies) are resident in Spain. If some of the shareholders are non residents, their share of the capital gain arising in the

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company will be subject to CGT at 18% based on the gain mentioned above, and depending upon the type of asset received. This CGT is payable by the company.
Once the underlying assets have been distributed to the shareholders, these will be valued for the purposes their tax obligations in Spain according to new rules which have been introduced. These are complex rules and need to be looked at in detail for each individual case.

_General Tax Update

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Recent changes to taxes generally in Spain have brought about substantial benefits for the non-resident investor Here is a summary of the most significant ones.

Non resident individuals with property investments in Spain

_ Capital gains will be taxed at 18%. (Previously 35%).
_Withholding taxes on the sale of property is reduced to 3% (Previously 5%). NOTE: This is a payment on account of CGT.
_ Accelerated Capital Allowances of 11,11% p.a. for properties acquired prior to 1994, will continue to apply only for the period to 20.01.06.
_ Rental income will be taxed at 24% on the gross amount received (Previously 25%).
_ Dividend income and interest at 18% (Previously 15%). Unless the taxpayer is resident in a DTTC.

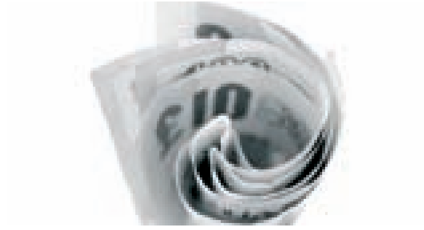
Resident individuals

_ Personal allowance to be applied :
- For joint declaration ... 8.450€
- For separate declaration ... 5.050€

_ Child allowance:
- For the 1st ....1.800€
- For the 2nd .... 2.000€
- For the 3rd .... 3.600€
- For the 4th and rest .... 4.100€

_ The lower rate of Income Tax is raised to 24%, and the highest lowered to 43%. (See table below).
_ All Capital gains are charged at 18%, irrespective of the period of ownership.
_ Dividends are taxed at 18%. (The first 1.500€ are exempted)
_ Interest is taxed at 18% (Except between related parties).

Taxable base up to euros	Tax due euros	Remaining taxable base up to euros	Rate applicable %
0	0	17.360	24
17.360	4166,4	15.000	28
32.360	8366,4	20.000	37
52.360	15766,4	Onwards	43



Property holding companies
The special regime for property holding companies will effectively disappear (15% beneficial rate on the sale of property held for more than 1 year from its acquisition). See separate article on this matter in this bulletin.

Company tax
Corporation tax will be reduced from 35% to 32,5% for 2.007 and to 30% from 2.008.
For small companies (turnover under 8.000.000€) the tax will be reduced from 30% to 25% up to 120.202,41€ of profits, the excess over 120.202,41will be taxed at 30% (previously 35%)

Non resident companies
_ Such companies with properties in Spain will be taxed at 18% (Previously 35%) on the gain.
_ The rate of withholding tax on the sale will be reduced to 3% (Previously 5%).
_ Rental income will be taxed at 24% on the gross amount received (Previously 25%).
_ Dividends and interest will be taxed at 18% (previously 15%). Unless the company qualifies for a DTTC or CEE directive, exemption, and can provide a certificate of tax residence in that country.

NOTE. Offshore companies will, in principle, qualify for the 18% rate on the capital gain obtained in Spain, on the sale of a property. However it is probable that the Government could introduce changes to the application of this rate.

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_Tax Tables 2007

Income Tax

Taxable Base Up to Euros	Tax Due Euros	Remaining Taxable Base Up to Euros	Rate Applicable %
0	0	17.360	24
17.360	4.166,40	15.000	28
32.360	8.366,40	20.000	37
52.360	15.766,40	Onwards	43

Wealth Tax

Taxable Base Up to Euros	Tax Due Euros	Remaining Taxable Base Up to Euros	Rate Applicable %
0	0	167129,45	0,2
167.129,45	334,26	167123,43	0,3
334.252,88	835,63	334.246,87	0,5
668.499,75	2.506,86	668.499,76	0,9
1.336.999,51	8.523,36	1.336.999,50	1,3
2.673.999,01	25.904,35	2.673.999,02	1,7
5.347.998,03	71.362,33	5.347.998,03	2,1
10.695.996,06	183.670,29	Onwards	2,5

Inheritance Tax

Taxable Base Up to Euros	Tax Due Euros	Remaining Taxable Base Up to Euros	Rate Applicable %
0	0	7.993,46	7,65%
7.993,46	611,50	7.987,45	8,50%
15.980,91	1.290,43	7987,45	9,35%
23.968,36	2037,26	7987,45	10,20%
31955,81	2851,98	7987,45	11,05%
39943,26	3734,59	7987,45	11,90%
47930.72	4685,10	7987.45	12.75%
55918,17	5703.50	7987.45	13.60%
63905,62	6789,79	7987,45	14.45%
71893,07	7943,98	7987,45	15,30%
79880.52	9166,06	39877,15	16,15%
119757.67	15606,22	39877,16	18,70%
159634,83	23063,25	79754,30	21,25%
239389,13	40011,04	159388,41	25,50%
398777,54	80655,08	398777,54	29,74%
797555,08	199291,40	Onwards	34,00%

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