

Spanish Tax Update

As no doubt many of you know from recent press comments, the Spanish government has made some headway with its draft legislation which seeks to carry out major changes to tax law. Whilst some of these changes are indeed welcome, others do create potentially increased liabilities. The Spanish Parliament continues to debate these changes. Given that the government has no overall majority it has had to make concessions to the smaller parties in order to obtain their support. We still expect the changes to take effect from the 1 January 2007.

As soon as the final regulations are approved we will update you.

The main changes anticipated are:

1. 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.
- The withholding tax will not be applied for properties acquired before 1986, provided they have not suffered improvements.
- 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.

2. Resident individuals.

Income tax.

- Personal allowance to be applied :
 - For joint declaration..... 8.450€
 - For separate declaration..... 5.050€
- Child allowances:
 - For the 1st 1.800€
 - For the 2nd 2.000€

- For the 3rd 2.700€
- For the 4th and subsequent..... 2.800€

- The lower rate 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 1.000€ are exempted)

TAXABLE BASE	TAX DUE	REMAINING TAXABLE BASE	RATE APPLICABLE
-	-	-	-
UP TO EUROS	EUROS	UP TO EUROS	%
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

3. Property holding companies.

The special regime for property holding companies will effectively disappear (15% beneficial rate on the sale of property held for more 1 year from its acquisition). As we have already mentioned in previous newsletters one of the features of the proposed new legislation envisaged the disappearance of the so called asset holding companies.

The initial text of the draft law did not contemplate a transitional period for the dissolution and liquidation of these companies. This has caused enormous concern in professional circles and in the media. The government has now rectified and transitional provisions are likely to be available. These will enable these types of companies to be liquidated and the underlying property transferred to the shareholders, at reduced rates of transfer tax, stamp duty, notary fees etc. It must be pointed out however that in all probability these special provisions will only apply to companies where the shareholders are individuals **AND** resident in Spain.

4. Company tax.

Corporation tax will be gradually reduced at a rate of 1% per year up to a total of 5 points. This effectively means that the general rate of 35% will come down to 30%, and the small company rate of 30% to 25%.

5. 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 will be taxed at 24% on the gross amount received (Previously 25%).
- Dividend and interest will be taxed at 18% (previously 15%). Unless the taxpayer can apply for exemption under a DTTC or the EU dividend directive.