

E – BULLETIN #6. NOVEMBER 2006

Spanish Tax Update

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.

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.

- 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	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 than 1 year from its acquisition). See separate article on this matter in this bulletin.

4. 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 120.202,41 will be taxed at 30% (previously 35%)

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%).

- 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.