

COMPANY TAX

NON RESIDENT COMPANIES.

The general rate applicable is 18% for Capital gains; interest earned etc, 24% for offshore companies.

RESIDENT COMPANIES

The general rate of company tax is 25% up to 120.000€ of taxable profits, 30% thereafter. (Turnover under 8.000.000 €)

TAX IMPLICATIONS FOR AN INDIVIDUAL NON RESIDENT IN SPAIN

I. Income Tax.

Individuals who own property in Spain are subject to tax on the income derived as follows:

a) Income from Lettings a 24% on the gross rent received with no deductions allowable. The tax becomes payable 30 days after the rent becomes due.

b) Deemed income on property utilised privately by the individuals is taxable also at 24% and assessed at 2% or 1, 1% of the rateable value (Valor Catastral) depending on the municipality.

This tax will have to be submitted on a self-assessment basis and becomes payable by the 31st December after the end of the tax year in question, or by the 30th June if more than one property is owned in Spain.

II. Wealth Tax.

Wealth tax is payable in Spain based on the value of the tax-payer's net assets situated in Spain.

This tax return must be filed irrespective of the value of net assets. There are no allowances, except **borrowed capital used** for the purchase of a property.

The rates of Wealth tax applicable are based, in the case of properties, on the rateable value (valor Catastral) or purchase price if higher. The scale of these rates is between 0, 2 and 2, 5 depending of the value of net assets.

III. Capital Gains.

The sale of property in Spain is subject to tax in our country. The rate applicable is 18% which is payable as follows:

- An initial payment on account is made by a process of deduction via the purchaser at the completion. This payment is calculated at 3% on the selling price, and the notary public will ensure that this is done when the deed of sale is signed.
- The balance due (if any) within 4 months of the completion.

What deductions or allowances can be set off?

- All documented expenses and cost related to the purchase and the sale
- All documented improvements.
- An inflation allowance dependant upon the date of the purchase.
- A special allowance for properties acquired between 1986 and 1996, excluding the first two. From 2007 this accelerate capital allowance will continue to apply only for the period to 20/01/06.

Capital Gains tax is also applicable to the sale of other assets, such as shares etc. The general rate is also 18%, however in the case of shares if the tax payer is resident in a double Tax treaty country, the gain could be taxed in that country provided a certificate of tax residence is provided to the Spanish tax office.

IV. Taxation of lifetime gifts and inheritances.

Royal decree 1629/1991 of the 8th November, 1991 sets out the regulations for the application of the tax on gifts and inheritances (Impuesto Sobre Sucesiones y donaciones). This tax is payable on:

- a) Acquisition of assets by means of inheritance.
- b) Acquisition of assets by means of lifetime gifts or donations.
- c) Capital sums received from life insurance policies.

The scale of rates are 7, 65% to 34, 00% depending on the taxable values assigned. Deductions are allowed depending upon the relationship of the beneficiaries to the deceased.

Valuation of assets is based on market values (minimum fiscal values are given by the Tax office of each municipality depending where the properties are situated). Against any revised valuation by the tax authorities an independent valuer's report can be requested.

The transfer of property as a result of inheritance or lifetime gift cannot be registered until proof of payment of the tax is made.

If an individual (resident or non resident in our country) dies leaving assets in Spain, his beneficiaries, be they spouses, parents or children over 21 years old are each entitled to a general allowance of 15,956.87 Euro against the value of the assets before calculating the tax payable.

The above allowances are reduced for indirect beneficiaries such as nephews, cousins, uncles etc to 7,993.46 Euros. For beneficiaries further removed no allowances are applicable.

A debt secured by a mortgage over a property in Spain will be deductible for Inheritance Tax purposes as long as: the debt is located or exercisable or must be fulfilled in Spain. Where a property bought in Spain which is financed by means of a loan secured by a mortgage over the said property, the loan balance at the date of death of the deceased, will be deductible for Inheritance tax purposes as the beneficiary/taxpayer not only inherits a property but acquires a debt on the said property (Inheritance value of the property = Property value less Debt).

TAX IMPLICATIONS FOR AN INDIVIDUAL RESIDENT IN SPAIN

Individual resident in Spain will be taxed in our country for all his/her worldwide income and assets.

For inheritance tax purposes, the **taxpayer** will be the **beneficiary** of the inheritance. If the beneficiary is non resident in Spain, he will be only taxed on the asset received which is situated in Spain. Beneficiary resident in Spain will be taxed on the worldwide asset received.

Resident in Spain will be subject to **wealth tax** for all his worldwide assets. The allowance to be applied will be as follows:

General allowance: 108.000€ to be deducted from the net assets value

Permanent Home allowance: 150.000€ will be exempt of taxation.

The tax rate to be applied after taking into account the above allowances will fluctuate between 0, 2% to 2, 5%.

Resident in Spain will also be subject to **income tax** for all his worldwide income. Tax rate will fluctuate between 24% to 43%.

Capital gain produced on the sale of property owned by a resident in Spain will be taxed at 18%, independently of the period of time held. Exemptions are applied on capital gain obtained on the sale of the permanent home provided that the taxpayer is over 65 years. Being the taxpayer under 65 year, the exemption will be applied to the sale of the permanent home provided that the proceeds are full invested in another permanent home.

Concerning inheritance tax, as mentioned above, the beneficiary is the taxpayer. If the beneficiary resident in Spain he will be taxed on the worldwide assets received. The area of residence in Spain of the deceased would have to be taken into account at the time of liquidating the inheritance when both, the deceased and the beneficiary are residents in Spain as special rules of each county, exactly, where the deceased lived permanently during the last five years would have to be applied.

SUMMARY OF TAX RATES APPLICABLE TO INDIVIDUALS IN SPAIN

Income Tax	24% to 43%
Capital gains Tax	18%
Wealth Tax	0,2%-2,5%
Inheritance Tax	7,65 – 34%