

Spanish Tax Facts

Introduction	Taxation in Spain occurs at a national level and at a regional ('Autonomous Community') or municipal level.
Tax Year	1 st January to 31 st December
Assessment Basis	Spanish residents are taxed on their worldwide income (earned and unearned), capital gains from all sources and on their world wide assets. Spain operates a self-assessment regime. Married couples may choose to file tax returns jointly or separately.
Income Tax	<p>Spanish residents are subject to Spanish Personal Income Tax ('IRPF'). Individuals and couples benefit from tax free allowances (Personal Allowances), which are increased in respect of dependent children and depend upon personal circumstances and total earnings.</p> <p>A progressive scale is applied to successive portions of taxable income. Income tax rates range from 15% to 45%.</p> <p>Total taxable income includes salary and other benefits from employment, income from economic activities, property rental income (either actual or deemed), investment income, some capital gains, gifts and special income.</p>
Taxation of Investment Income	A withholding tax of 15% is applied to interest and dividends paid by a Spanish entity. Any interest and dividends received will form part of the taxpayer's income tax calculation and any withholding tax deducted will be held as a credit against the final calculation of income tax due.
Tax on Property Rental Income	Property rental income forms part of taxable income. Property which is not used for rental or economic activity and is not the tax payer's permanent residence will be taxed on a deemed income basis based on cadastral value.
Wealth Taxes	An annual wealth tax is applied to residents based upon the value of their worldwide assets. A tax free allowance is applied and any excess wealth is taxed on a progressive scale. Wealth tax rates vary between 0.2% and 2.5% on successive portions of taxable wealth.
Capital Gains Tax	Any capital gains on assets held for more than one year are treated as special income and will be taxed at a flat rate of 15%, although this rate may be reduced on certain assets depending on the length of time the assets are held. Gains on assets held for a shorter period will be classed as general income and form part of the income tax calculation.
Inheritance and Gift Tax	Inheritance and Gift tax is payable by the recipient of the assets. Residents are taxed on worldwide assets. The amount of tax paid depends upon the relationship of the recipient to the donor, the value of assets received and the existing wealth of the recipient. Gift and inheritance tax rates are on a progressive scale and range from 7.65% to 34%. There are certain reliefs and exemptions.
Regional and Municipal Taxes	Wealth tax, inheritance and gift tax, capital and property transfer tax as well as a proportion of income tax is raised by the Autonomous Community/Region in which the taxpayer is resident. Such taxes are included in the Tax rates shown.
Property Taxes	<p>An annual real estate tax is payable to the local municipality. The tax is based upon a percentage of the cadastral value of the property. Typically the tax rate is 0.4% on urban properties and 0.3% on rural properties. Municipalities may, within certain limits, increase or decrease these rates.</p> <p>If there is a change in land title a municipal tax ('land appreciation tax' or 'Plus Valia') is raised based upon the increase in value of the land since it was last sold. The rate is set by the Municipality and varies depending upon where the land is situated, the population of the municipality and the length of time since the preceding transfer.</p>
Stamp Duty/Transfer Tax	The general rate of Stamp Duty/Transfer tax is 6%-7% (depending upon the Autonomous Community) on 'second hand' property transactions. Lower rates apply to the acquisition of other assets. Documentary stamp duty is typically 0.5%.
Sales Tax	Sales tax (IVA) of 16% is generally added to the sale price of goods. Some sales are exempt from sales tax or taxable at a reduced rate. With regard to 'new build' properties a sales tax of 7% is charged in place of a transfer tax.
Social Security Contributions	An employee is liable to pay social security contributions as a percentage of earnings. The rate is generally 6.35% of earnings. Any social security contributions made are deductible from taxable income.

Taxation of Expatriates Living in **Spain**

There are no special tax provisions for international assignees moving to Spain.

Expatriates living in Spain will be classified as Resident or Non-Resident. An individual is considered resident if:

- They spend more than 183 days in Spanish territory in a calendar year or,
- Their principal place of business, professional or economic interest is based in Spain or,
- Their spouse and/or dependent children are habitually resident in Spanish territory (unless the individual is separated from their family or can prove tax residence elsewhere)

In Spain there is no concept of a part tax-year. An individual will be considered to be Resident or Non-Resident for the whole tax year according to the above rules and taxed accordingly.

Income tax is raised in two parts – the majority is raised by the central government with a smaller percentage being raised at a regional level by the 'Autonomous Community' in which the individual is living. The 'Autonomous Communities' also control wealth taxes and inheritance/gift taxes. If the 'Autonomous Community' does not establish its own tax scales then a default tax scale is applied.

Income generated from employment overseas (i.e. outside of Spain) are tax exempt up to a certain limit provided that the work is undertaken for a company non-resident in Spain or for a permanent establishment located outside of Spain and provided that a tax similar to the Spanish Personal Income Tax is applied in the territory where the work is undertaken. In addition the territory must not be considered a 'tax haven' by the Spanish tax authorities.

Taxation of 'Non-Residents' Living in **Spain**

The taxation basis for expatriates living in Spain but who are not classified as residents is different to the Residents basis detailed above. Non-Residents are liable to Spanish Non-Residents Tax, as opposed to Spanish Personal Income Tax which is levied on Residents.

Non-Residents are only taxed on income and gains obtained or generated in a Spanish territory, compared to worldwide income and gains for Residents. Non-Residents may only file individual tax returns, unlike Residents who may file joint returns in respect of a married couple.

The tax rates applicable to Non-Residents are different to those applicable to Residents:

- 35% tax is applied to capital gains
- 18% in respect of interest and dividends
- 25% on other income

A Non-Resident does not benefit from any tax free allowances/deductions. Certain exemptions may apply to Non-Residents, in particular residents of other EU countries are normally not subject to Spanish tax on Spanish sourced interest income or capital gains realised on the sale of certain personal property.

With regard to capital gains arising from the transfer of real property the purchaser is required to withhold 5% of the purchase price. Such amount is paid to the Spanish fiscal authorities on account against the seller's potential liability to capital gains tax.

Non-Residents are subject to Wealth Tax at the same rates as Residents but only in respect of Spanish assets. No relief or exemptions apply to Non-Residents.

Inheritance tax also applies to Non-Residents in receipt of assets situated in Spain.

Expatriate **Financial Planning**

While, as a whole, the Spanish tax regime for Non-residents is less onerous than the regime for Residents, with only Spanish sourced income and gains being subject to tax, an expatriate should take care over the number of days spent in Spain during any tax year.

In addition, if you are an expatriate currently living in or considering moving to Spain, you should review your finances with a suitably qualified financial advisor. In particular, if you are about to move to Spain, you should plan and review your finances before making the move. You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges are made, as well as considering options available to you for estate planning.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries.

- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products often feature a strong range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk. Offshore products also offer access to household name fund managers, including many international and specialist fund managers.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.

This document has been prepared on behalf of the members of the Association of International Life Offices ("AILO") and relies on information and technical analysis provided by third party professionally qualified tax advisers. Whilst AILO has used its best endeavours in selecting its advisers to ensure the accuracy of the information contained in this document, AILO cannot be held responsible for any errors and omissions.

This document has been prepared for general information purposes only. The information contained in this document is a summary of the law relating to taxation that is generally applicable in Spain and is intended for guidance only. The information contained in this document reflects the law as at December 2003. Tax legislation is complex and subject to frequent change. This document cannot be relied upon as a specific analysis of the current law as it applies to each individual. Individuals should seek detailed tax advice from a suitably qualified professional adviser before making any decision in relation to his or her tax planning.

The information contained in this document does not and is not intended to amount to investment advice and anyone reading it should consult their professional adviser before making an investment into any investment product of a type mentioned in this document.