

JAVIER CARRETERO & ASOCIADOS

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ITPG WINTER MEETING
MARBELLA 2015

SPANISH TAX REFORM 2014

BACKGROUND

- ⦿ Crisis + new Government 2011: all taxes increased.
- ⦿ 2013: Government announced global tax reform entrusting a Committee of Experts to study and propose.
- ⦿ 2014: Government focused on State legislation. Inheritance and Gift Tax and Wealth Tax will be reformed in 2015 as part of the Regional finance model.
- ⦿ 2014: Government approved 3 Laws of reform on Personal Income Tax, Corporate Income Tax and VAT, in force since January 2015.

PERSONAL INCOME TAX (I)

- ◉ New tax scale and bands over 2015 and 2016.

Taxable base to	Fixed tax	Taxable base over to	Tax rate %
0,00	0,00	17.707,20	24,75
17.707,20	4.382,53	15.300,00	30,00
33.007,20	8.972,53	20.400,00	40,00
53.407,20	17.132,53	66.593,00	47,00
120.000,20	48.431,24	55.000,00	49,00
175.000,20	75.381,24	125.000,00	51,00
300.000,20	139.131,24	Onwards	52,00

From	To	2015	2016
0,00	12.450,00	20%	19%
12.450,00	20.200,00	25%	24%
20.200,00	34.000,00	31%	30%
34.000,00	60.000,00	39%	37%
60.000,00	Onwards	47%	45%

PERSONAL INCOME TAX (II)

- Savings income tax scale and bands change over 2015 and 2016.

Taxable base to	Fixed tax	Taxable base over to	Tax rate %
0,00	0,00	6.000,00	21,00
6.000,00	1.260,00	18.000,00	25,00
24.000,00	5.760,00	Onwards	27,00

Taxable base to	Fixed tax	Taxable base over to	Tax rate %
0,00	0,00	6.000,00	20,00
6.000,00	1.200,00	44.000,00	22,00
50.000,00	10.880,00	Onward	24,00

Taxable base to	Fixed tax	Taxable base over to	Tax rate %
0,00	0,00	6.000,00	19,00
6.000,00	1.140,00	44.000,00	21,00
50.000,00	10.380,00	Onwards	23,00

PERSONAL INCOME TAX (III)

- ⦿ Salaried workers earning less than 12.000 euro will not be taxed as from 2015.
- ⦿ Severance pay up to 180.000 euro will remain exempt.
- ⦿ Threshold of 1.500 euro on dividends will be eliminated.
- ⦿ 60% reduction on rental income remains but special 100% will be eliminated.
- ⦿ PALP: new investment product, 5 years or more, less than 5.000 euro/year: exemption on return.

PERSONAL INCOME TAX (IV)

- ⦿ All capital gains will be taxed at savings rates regardless of the holding period.
- ⦿ Capital gains made by taxpayers over 65 will not be taxed when reinvested in pension annuities. Main home relief still applies.
- ⦿ Indexation will no longer apply.
- ⦿ Inflation relief for properties purchased before 1994 is limited to 400.000 €.

PERSONAL INCOME TAX (V)

- ⦿ Exit tax on latent gains on shares for individuals moving abroad meeting certain conditions (e.g., acquisition value above 4 M, or 1M and 25%, resident status 10 of 15 years, etc.). Election can be made when moving to UE under certain circumstances.
- ⦿ “Beckham law” will no longer apply to sportsmen; income up to 600.000 euro will be taxed at 24% and the excess at the general scale rates (47% 2015 and 45% 2016).

CORPORATE INCOME TAX (I)

- CIT rate will reduce from 30% to 28% in 2015 and to 25% in 2016.
- Newly created companies will pay 15% CIT rate for the 2 first years.
- SMEs will not have a reduced tax scale but a reduction of the taxable base up to 10% with the limit of 1 M, to be accounted as reserve for at least 5 years.
- Rental business will require at least one full-time employee.

CORPORATE INCOME TAX (II)

- ⦿ Payments to a related party would not be deductible if at the level of the recipient they are not treated as taxable income or are taxed at a rate of less than 10% (anti-abuse rule for BEPS).
- ⦿ Intragroup profit participating loans would be characterized as equity and interest payments would be nondeductible. Withholding tax may apply on deemed dividend payments.
- ⦿ Fixed asset and real estate impairment losses would not be deductible. Assets could still be depreciated.

CORPORATE INCOME TAX (III)

- ⦿ Losses could be carried forward indefinitely (currently 18 years) but limited to the higher of 70% of the Company's net taxable income or 1 M.
- ⦿ Participation exemption extended to dividends from, and capital gains arising from disposals of, Spanish subsidiaries. (i) minimum stake of 5% or acquisition value of at least 20 M (ii) holding period of at least 1 year. In case of foreign subsidiaries, a nominal taxation of at least 10%. Exemption limited to 30% and 60% of gains in 2015 and 2016; fully exempt 2017.

CORPORATE INCOME TAX (IV)

- ⦿ Related parties for transfer pricing rules if participation of 25% (now 5%) or decisión-making power is o may be exercised.
- ⦿ Spanish companies could claim a deduction up to 10% on equity increase (retained earnings) not distributed in 5 years.
- ⦿ A Spanish entity will include in its taxable base income derived by a CFC from the transfer of assets and rights, or where the CFC earns service income and there are no material and personal resources at the CFC level.

NON RESIDENT INCOME TAX

- ◉ Withholding tax rate on dividends and interests would be reduced to 20% in 2015 and 19% in 2016 (subject to DTTs). The same rate would apply to capital gains (indexation and inflation relief will not apply).
- ◉ Other income would be taxed at a 24% rate. For EU/EEA residents it will be 20% in 2015 and 19% in 2016.
- ◉ General antiavoidance provision on repatriation of profits under DTTs and Parent-Subsidiary EC Directive: the holding Company will have to be engaged in active business activities other than holding shares.

JC&A Abogados

- Calle Jacinto Benavente 11, 3^o-2.
Marbella
- Tlf.+34 952924656
- Fax. +34 952864162
- info@jca-abogados.com
- www.jca-abogados.com

Santiago Lapausa
s.lapausa@jca-abogados.com