

TAX TABLES FOR SPAIN

2016

Introduction and Overview

In this guide, we provide information concerning the State tax system with an indication of the regional variations for Andalucía, Madrid, Cataluña, Balearics, Valencia and Murcia, these regions being the most relevant to foreigners in Spain.

The Spanish tax system has become increasingly complex during the last few years. The initial 'pillar to post' frenetic response to the economic crisis of the State Government has dissipated and the tax system has now settled down. However, the 17 Autonomous Communities (ACs) share in the tax revenues and now have tax legislative powers. Inevitably, each AC has made changes to the tax system and so there are significant regional variations in many taxes in Spain.

Thankfully, in the main, the basic structure of the different taxes remains consistent throughout Spain and the ACs follow the standard framework of each tax and just make changes to the tax rates, tax bands, allowances and deductions.

Nevertheless, regional differences can range from purely cosmetic and obviously headline-grabbing and politically motivated 'tweaks', to being so significant as to cause some doubts as to the constitutional legitimacy of the tax system that is meant to be proportionate and fair throughout Spain.

This is especially the case for inheritance and gift tax, which was ruled illegal by the EU Court of Justice in 2014, as it discriminated against non-resident EU citizens. For residents of some regions this tax is virtually exempt when wealth is transferred within families, whereas in other regions, taxes of up to 36.5% can apply. To overcome the decision of the EU Court, the State Government made some minor changes, although these too have caused some new and interesting technical anomalies.

Apart from the extraordinary regional variations in inheritance and gift tax, wealth tax has provided considerable scope for politicians to impress the population with their left or right wing credentials. Right wing wealthy Madrid remains exempt whereas the new left wing coalitions, for example in the Valencia region, have actually reduced the reasonable exemptions included in State legislation.

Wealth tax was exempted in 2008 then reintroduced in 2011 and the Government has repeatedly stated that the tax would be suppressed, and then changed its mind. The 2016 budget law approved by the Government before the recent elections has included a provision that exempts wealth tax nationally for 2017 onwards.

This brings us to the most significant factor affecting the tax system in 2016. We write this guide two months after the December 2015 election results made it impossible for any single party, or perhaps any conceivable coalition of political parties, to form a Government, making it more than likely that new elections will be called later this year.

How new elections might turn out is unfathomable. Podemos, the third most voted and neo-Trotskyist party proposes swingeing increases to personal and business taxes, apart from other policies proposals that would not be unfamiliar to 1930s Spain.

The highest voted centre-right Partido Popular seems intent on being utterly discredited by the almost daily court appearances of its politicians answering charges for corruption, tax fraud, illegal funding and money laundering.

In this environment, who can guess how the tax system might turn out this year?

Thankfully, VAT, already the most convoluted and voluminous tax in the Spanish statute book, has not been ceded to the ACs and so has no regional variations.

Given the changing tax environment of Spain, the usual health warning applies, but even more than usual: Do not rely on what has been written here (or elsewhere) without first checking the latest news with us!

Personal Income and Capital Gains Tax

Income is split into general income or investment income. Investment income has lower tax rates than general income. General income includes business earnings, employment

and state pensions, property rentals and all other income not explicitly included in investment income. Investment income includes loan and deposit interest, dividends, investment savings and retirement annuity schemes and all capital gains.

Tax rates for general income – Add together the state and the ACs tax rates (we show in this summary the most relevant ACs tax tables):

STATE tax rates for general income		
From	To	Tax Rate
0,00	12,450.00	9.50%
12,450.00	20,200.00	12.00%
20,200.00	35,200.00	15.00%
35,200.00	60,000.00	18.50%
60,000.00	-	22.50%

PLUS

Andalucía tax rates for general income		
From	To	Tax Rate
0,00	12,450.00	10.00%
12,450.00	20,200.00	12.00%
20,200.00	28,000.00	15.00%
28,000.00	35,200.00	16.50%
35,200.00	50,000.00	19.00%
50,000.00	60,000.00	19.50%
60,000.00	120,000.00	23.50%
120,000.00	-	25.50%

Balearics tax rates for general income		
From	To	Tax Rate
0,00	10,000.00	9.50%
10,000.00	18,000.00	11.75%
18,000.00	30,000.00	14.75%
30,000.00	48,000.00	17.75%
48,000.00	70,000.00	19.25%
70,000.00	90,000.00	22.00%
90,000.00	120,000.00	23.00%
120,000.00	175,000.00	24.00%
175,000.00	-	25.00%

Madrid tax rates for general income		
From	To	Tax Rate
0,00	12,450.00	9.50%
12,450.00	17,707.20	11.20%
17,707.20	33,007.20	13.30%
33,007.20	53,407.20	17.90%
53,407.20	-	21.00%

Valencia tax rates for general income		
From	To	Tax Rate
0,00	17,707.20	11.90%
17,707.20	33,007.20	13.92%
33,007.20	53,407.20	18.45%
53,407.20	120,000	21.48%
120,000	175,000	22.48%
175,000	-	23.48%

Cataluña tax rates for general income		
From	To	Tax Rate
0,00	17,707.20	12.00%
17,707.20	33,007.20	14.00%
33,007.20	53,407.20	18.50%
53,407.20	120,000	21.50%
120,000	175,000	23.50%
175,000	-	25.50%

Murcia tax rates for general income		
From	To	Tax Rate
0,00	17,707.20	12.00%
17,707.20	33,007.20	14.00%
33,007.20	53,407.20	18.50%
53,407.20	120,000	21.50%
120,000	175,000	23.50%
175,000	-	24.50%

Tax rates for investment income – This table combines the total of the State and ACs tax rates as no regional variations currently exist.

Combines state and ACs tax rates for investment income		
From	To	Tax Rate
0,00	6,000.00	19.00%
6,000.00	50,000.00	21.00%
50,000.00	-	23.00%

Main income deductions and allowances (some minor AC variations exist)

Personal tax free income allowance	5,550 €
First child allowance	2,400 €
Second child allowance	2,700 €
Third child allowance	4,000 €
Fourth child allowance	4,500 €
Additional allowance for each child under three years old	2,800 €

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Social security contributions	100% of amounts paid
General earnings deduction	2.000 €
Extra general earnings deduction where earnings are below 14,450€	A maximum of 3.700 €
Pension contributions deduction—the paid to the pension scheme subject to a maximum of	The lower of 8,000 € and 30% of earned income
Acquisition of home/loan payments (capital and interest). Not available if property purchased after 1/1/2013	Tax credit of 15% of amount paid with maximum of 1.356 €

Non-Resident Taxation

Non-resident persons and companies are subject to taxation in Spain on business and other income derived from Spain, including any income or capital gains arising from Spanish movable or immovable assets, whether owned directly or indirectly via interposed companies. Persons or companies resident in countries with double tax treaties with Spain may have more favourable tax treatment.

Type of Income received by non-resident	Tax Rate
Profits of foreign company Permanent Establishment	25%
Capital gains tax of foreign individuals and companies	19%
Loan interest and dividends	19%
Rent of properties by <u>EU residents</u> (individuals or companies)	19% of <u>net</u> rental income
Rent of properties by <u>non EU residents</u> (individuals or companies)	24% of <u>gross</u> rental income
Royalties	19% (EU tax residents) 24% (others)
Special Tax on tax haven entities owning real estate in Spain	3% of cadastral value of property
Deemed income tax when property not rented and cadastral value of property <u>not</u> revised in last 10 years	0,38% (EU tax residents) 0,48% (others) of cadastral value
Deemed income tax when property not rented and cadastral value revised in last 10 years	0,21% (EU tax residents) 0,27% (others) of cadastral value
Trading income for businesses without permanent establishment in Spain	19% (EU tax residents) 24% (others)
Income from employment in Spain whilst not resident	19% (EU tax residents) 24% (others)
Sport, professional and artistic activities	19% (EU tax residents) 24% (others)
Persons moving to Spain for work and electing for non-resident tax treatment (article 93). This attractive scheme allows persons to live in Spain without being fully part of the Spanish income and wealth tax system	24% on first 600,000€ income with the balance at 45%

Corporation Tax

Companies and other collective entities with or without legal personality are subject to corporation tax. Charities and similar organisations can be wholly or partially exempt. The taxable base starts with the accounting profit of the entity, calculated in accordance with Spanish accounting regulations. Adjustments to taxable profits may apply for various concepts including non justified costs, accounting/tax depreciation variations, losses in earlier years, investment and R&D credits.

This is essentially a State wide tax, except for very few regional variations that exist in Navarra, Basque Country and the Canary Islands.

The Spanish corporation tax system provides tax credits and other incentives for various types of investments in R&D, science, reinvestment of capital gains, export activities, employee development, employment creation and social housing.

General corporation tax rate	25%
Newly created trading companies corporation tax rate applicable to 1st and 2nd year it makes a taxable profit	15%
Tax rate reduction on a special reserve created, where a company allocates part of its profits to a special reserve locked up for 5 years	10%
SOCIMI (under certain rules)	NIL
SICAVS	1%
Pension Funds	NIL
Banks	30%
Petrol companies	30%

Employment Costs and the Minimum Wage

Employer social security charges are based on employee income. The amount payable for SS contributions depends on the type of labour contract and trade sector but would be typically in the region of 28%-30% of gross salary, the employee paying a further 4.5%-7.5%. There is no minimum contribution level but the maximum employee and employer contribution is reached on a salary of approximately 44,000 € p.a.

The minimum annual wage in Spain is 9,172.80€, divided into 14 months of pay. This minimum wage is roughly equivalent to 5€/hour, allowing for the typical annual number of hours of work.

The statutory minimum wage may be increased by the collective employment agreement that applies to each business sector. The collective agreements may improve the statutory rights of employees, including the number of pay months p.a. Employers may usually incorporate the extra month payments into 12 calendar month salary payments.

Value Added Tax

The Impuesto sobre Valor Añadido (IVA) rates that apply to the supply of goods and services are:

- General rate 21% - all supplies not subject to reduced rates.
- Reduced rate 10% - non basic foods, hostelry services, passenger transport, newly built dwellings.
- Super-reduced rate 4% - basic foods, certain pharmaceuticals, books and magazines.

Other business taxes

Impuesto sobre Actividades Economicas (IAE) is a municipal businesses tax based on arcane factors including business category, location, population of municipality and turnover. IAE is exempt for all self-employed businesses and incorporated businesses with an annual turnover of less than 1million €. A rubbish collection tax will also be applied by the municipality depending on the nature, location and size of the business.

Property transfer tax

The transfer of properties is subject to the Impuesto sobre transmisiones patrimoniales (ITP). This is exempted in the case of the sale by a registered trader of newly built dwellings or land licenced for construction, these being subject to IVA. This tax was one of the first taxes fully ceded to the ACs and the tax rates now vary considerably, typically between 6% and 10% of the transfer value of the asset. Lower rates can apply in the case of low cost housing.

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Wealth tax

This personal tax was initially brought back as an emergency economic measure in

State Wealth Tax Rates				
Tax Rate Band	Cumulative Wealth	Tax Rate %	Tax on Band	Cumulative Tax
700.000,00	700.000,00	0,00%	0	0
167.129,45	867.129,45	0,20%	334,26	334,26
167.123,43	1.034.252,88	0,30%	835,63	1.169,89
334.246,87	1.368.499,75	0,50%	2.506,86	3.676,75
668.499,76	2.036.999,51	0,90%	8.523,36	12.200,11
1.336.999,50	3.373.999,01	1,30%	25.904,35	38.104,46
2.673.999,02	6.047.998,03	1,70%	71.362,33	109.466,79
5.347.998,03	11.395.996,06	2,10%	183.670,29	293.137,08
Thereafter		2,50%		

2011 and will continue until the end of 2016. The tax has been fully ceded to the ACs, which have made significant changes. The first 700,000€ of wealth is usually exempt but some ACs have now reduced the exemption to 600,000€ or 500,000€. The tax applies to residents and non-residents owning assets in Spain, regardless of where located. Spanish tax residents receive an extra deduction of up to 300,000€ on the value of their home.

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Autonomous Community Variations:

- **Andalucía** – has increased all tax rates by small amounts. The top rate is 3.03%.
- **Madrid** – has maintained the 100% exemption to this tax.
- **Balearics** –has reduced the general exemption to 600,000€ and increased all tax rates significantly with top rate at 3.45%.
- **Cataluña** - has reduced the general exemption to 500,000€ and increased tax rates by small amounts. Top rate is 2.75%.
- **Murcia** - has increased tax rates by small amounts. Top rate is 3.00%.
- **Valencia** has reduced the exemption to 600,000€ and increased all the state tax rates by approximately 25%
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Inheritance and Gift Tax

This tax is imposed on the beneficiaries, not the estate of the deceased.

No capital gain arises on an inheritance but in the case of a gift, the donor pays tax on any capital gain based on asset transfer being at market value.

This tax is fully ceded to the ACs and is now the subject of very considerable regional variation and competition between the ACs. One example of this is that the tax is virtually exempt in the case of immediate family inheritances in Madrid. In the case of Cataluña and Community of Valencia, substantial reductions apply, whereas in Andalucía and much of the rest of Spain only modest exemptions exist. Andalucía has increased all the rates and the top rate remains at 36.5%

The tax is calculated taking into account three factors: a) The net value of the inheritance, b) the beneficiary's familial relationship with the testator/donor and c) the pre-existing wealth of the beneficiary; b) and c) combine to produce a multiple which is applied to the tax rates in a).

a) The tax rates			b) and				
Value	Rate (%)	Cumulative Tax (€)	c) Consanguinity, beneficiary's pre-existing wealth and allowances.				
			Pre-Existing Wealth (€)	Tax rate multiple based on group as defined below			
				I & II	III	IV	
7.993,46	7,65	611,50					
15.980,91	8,50	1.290,43					
23.968,36	9,35	2.037,26					
31.955,81	10,20	2.851,98					
39.943,26	11,05	3.734,59					
47.930,72	11,90	4.685,10					
55.918,17	12,75	5.703,50					
63.905,62	13,60	6.789,79					
71.893,07	14,45	7.943,98					
79.880,52	15,30	9.166,06					
119.757,67	16,15	15.606,22					
159.634,83	18,70	23.063,25					
239.389,13	21,25	40.011,04					
398.777,54	25,50	80.655,08					
797.555,08	29,75	199.291,40					
Excess	34,00	-					
			0 to 402,678	1,00	1,5882	2,00	
			402,678 – 2,007,380	1,05	1,6676	2,10	
			2,007,380 - 4,020,771	1,10	1,7471	2,20	
			4,020,771 +	1,20	1,9059	2,40	
			I: Descendants and adopted children under 21: Exempt 15.956,87 € plus 3.990,72 € per year under 21.				
			II: Descendants, including adopted, over 21, spouses, parents and adopting parents: Exempt 15.956,87 €				
			III: Relatives in second and third degree, i.e. brothers/sisters and nephews/uncles: Exempt 7.993,46 €				
			IV: Relatives in fourth degree, or without any relationship, for example, a friend: No allowances				