



ANDALUCIA IS BECOMING A LOW TAX REGION

Can this really be true ?

Well, unbelievably, it is.

One of the promises made by the right wing parties during the December 2018 elections in Andalucía was to reduce taxes. We all know that politicians like to promise to reduce taxes and increase public spending at the same time but one of the few things that the three right wing parties had in common was the desire to eliminate wealth tax and inheritance/gift tax as well as making other tax changes to make Andalucía more attractive.

Until 2018, Andalucía has been under the control of the PSOE, Spain's main socialist party, since Spain became a modern democracy in 1978. That's 40 years under the control of one party. This beats even Robert Mugabe who only managed to keep Zimbabwe under his thrall for 37 years!!

To everyone's great surprise, the new Government, made up of a coalition of the right wing parties, the Partido Popular, Ciudadanos and Vox and under the leadership of the PP, has actually kept its election promise to reduce tax. Can you imagine that!

As a result, Andalucía is fast changing from one of the worst places to live from a tax perspective to one of the best, and in many ways much more attractive than the UK, nearby Portugal and Madrid.

Inheritance tax

The first big change is to inheritance and gift tax, which has taken place today, the 11 April 2019.

Inheritances and gifts between spouses, parents and children, will now have a 99% reduction of the final tax payable.

The previous 1 million deduction per beneficiary also remains so that most taxpayers will not pay any tax at all.

An indirect effect of the nearly tax free gifts regime is that the transfer of real estate by deed of gift will only cost 1 % instead of the 8%-10% tax that is charged for other types of transfer

So the many persons who have moved to Madrid and Portugal for tax reasons should start thinking about moving back to Andalucía.

Income tax

50% of the income tax take is ceded to the Spanish regions, so they have the ability to establish their own tax bands and tax rates. The new tax measures reduce the number of tax bands and the tax rates both for low income earners (less than 12.450 €) and high income earners (exceeding 120.000 €). These changes will take place gradually over the next four years.

New right wing Government is making sweeping changes

Between 0% and 1% inheritance and gift tax



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Simplification of general income tax rates and modest reductions

Very favourable tax rates for passive income

Only 19% on buy to let income

To illustrate:

| Andalucía general income tax rates OLD | | |
|--|------------|----------|
| From | To | Tax rate |
| 0 | 12,450.00 | 10.0% |
| 12,450.00 | 20,200.00 | 12.0% |
| 20,200.00 | 28,000.00 | 15.0% |
| 28,000.00 | 35,200.00 | 16.5% |
| 35,200.00 | 50,000.00 | 19.0% |
| 50,000.00 | 60,000.00 | 19.5% |
| 60,000.00 | 120,000.00 | 23.5% |
| 120,000.00 | - | 25.5% |

| Andalucía general income tax rates NEW | | |
|--|-----------|----------|
| From | To | Tax rate |
| 0 | 12,450.00 | 9.5% |
| 12,450.00 | 20,200.00 | 12.0% |
| 20,200.00 | 35,200.00 | 15.0% |
| 35,200.00 | 60,000.00 | 18.5% |
| 60,000.00 | - | 22.50% |

The idea is that the tax rates will be aligned with Madrid, which currently has the lowest income tax rates in Spain.

Investment income, capital gains, income from residential property lets and private pensions

Such income is very common with foreigners moving to Spain and it is worth reflecting on how advantageous the tax system is throughout the regions of Spain for these types of income.

1. Investment income and capital gains are taxed at rates between 19%-23% with the top rate applying over 50.000 €.
2. Residential property letting, popularly known as buy-to-let in the UK, is subject to the general rates of income tax but a deduction is given of 60% of the net rental income, effectively reducing the top tax rate of around 19%, depending on which region of Spain a person lives. The same 60% applies wherever the rented property is located, whether Spain or abroad. Additionally, UK residents would especially benefit because all costs are allowed in Spain as deductions from gross rent, including loan interest costs.
3. A private pension is not a pension in Spain, it is a retirement savings scheme. Such schemes are subject to tax according to investment income and capital gains rules. As a result amounts withdrawn from UK SIPP, QROPS, USA IRAs, and similar schemes from elsewhere in the world, are subject to the maximum income tax rate of 23%.



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*Pension income
taxed as low as
6%*

The part of the retirement scheme that represents the contributions that were made before the person retired are not taxed at all. In other words, draw-downs can be treated as part capital returned and part income.

Where annuities are taken from pension schemes, they are always treated as part capital and income, with only the income being taxable at investment income rates, e.g. a lifetime annuity contracted at 65 years old is treated as 24% income. The effective tax rate is less than 6%.

Wealth tax

The only tax that has not yet been subject to a formal announcement is wealth tax, which remains a significant issue for wealthy individuals. The story of this tax is typical and it goes to prove how difficult it is to truly eliminate a tax once it has been created.

The tax was introduced as an emergency measure in 1979 and it seems that the country has been in a state of emergency ever since.

A 100% exemption was introduced in 2008 (great timing!) and the exemption was reversed in 2011 “because of an economic emergency”.

State legislation already exists that eliminates this tax for the whole of Spain on 1 January 2020 and it would require action by the Government to reverse this. We have to express caution here as who knows when a Government will claim that another emergency exists.

*Goodbye to
wealth tax in
2020?*

In summary.....

No inheritance or gift tax, maximum taxes of 23% for investment income and capital gains tax, 19% on residential property income and as little as 6% on personal pension income and, with any luck, no wealth tax from 2020.

That's makes Andalusia almost a tax haven!

Madrid remains as attractive but it does not have the beaches, bars, social life and golf that is so attractive to foreigners and Madrileños alike.

*Welcome to
Andalusia — the
sunny tax haven
of Europe!!*

Miembro de



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