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A GUIDE TO WEALTH TAX IN SPAIN

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Introduction to the tax

Spain is now one of the very few countries that has a pure tax on wealth. Those retiring in Spain or moving to Spain for other reasons would do well to know how this tax works, as well as understanding income tax and inheritance tax, the other significant personal taxes in Spain, covered in other articles.

Wealth tax is an annual tax on the net wealth of an individual. In the case of a couple each is separately taxed. A resident of Spain is subject to this tax on their worldwide wealth. A non-resident is only subject to the tax on assets located in Spain or subject to Spanish legislation, e.g. Spanish real estate, registered cars, boats, planes, company shares, bank accounts, investments, etc.

Wealth tax was established in 1978, shortly after the democratic state of Spain was created after the death of Franco in 1975. It was meant to be an emergency measure needed to support the finances of the fledgling state but, as we all know, once a country has introduced a tax it is very hard to get rid of it.

Wealth tax was substantially reformed in 1991 and since then has remained almost the same. The tax tables and rates have hardly changed, despite inflation over 30 years having devalued assets by well over 50%. Indeed, tax rates have increased in most parts of Spain. There was a happy period between 2008 and 2011 when the tax was suppressed with a 100% exemption.

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The stated intention at the time was to eliminate the tax definitively but the recession that followed the 2007-2008 financial crisis put paid to this. Its elimination remains the objective of the centre-right Partido Popular.

When the tax returned in 2011, substantial exemptions were introduced that keep the vast majority of the population out of the system.

Wealth tax generates tax revenues of approximately 1.2 billion Euros each year, about 0,25% of the total tax take of the country, so it is obvious that the tax is motivated purely by political dogma.

Regional variations in wealth tax

In 1980, the financing system of the 17 Autonomous Communities was created which included the devolution of the right to receive various taxes, including wealth tax. About 15 years ago the power to modify the rules of the tax were also devolved. Inevitably, politicians have enjoyed playing with the rules and we now have very substantial regional differences reflecting the political interests of the Autonomous governments, as illustrated by the summary below:

	Tax on net wealth of		
	800.000€	4.000.000€	15.000.000€
Andalucía	220€	40.300€	302.300€
Aragón	1.160€	41.600€	320.300€
Asturias	220€	41.700€	322.800€
Baleares	280€	50.000€	375.800€
Canaries	200€	36.500€	309.800€
Cantabria	240€	44.200€	331.400€
Castilla y León	200€	36.500€	309.800€
Castilla-La Mancha	200€	36.500€	309.800€
Cataluña	770€	41.900€	297.500€
Comunidad de Madrid	0€	0€	0€
Comunitat Valenciana	900€	47.600€	362.200€
Extremadura	1.100€	59.900€	418.160€
Galicia	200€	36.500€	273.800€
Región de Murcia	240€	43.900€	328.500€
Navarra	475€	32.400€	237.700€
La Rioja	200€	36.500€	309.810€
País Vasco (1)	0-200€	22.500€ - 35.000€	210.000€ - 261.000€

(1) Within the País Vasco there are three regions that have tax raising powers, Vizcaya, Álava and Guipuzcoa.

It will surprise no one that most wealthy Spaniards now live in Madrid and only sheep live in Extremadura!

The central State has its own tax rates, exemptions and allowances, which apply by default if a region does not exercise its right to modify the tax. In practice the state system now only applies to non-residents of Spain who may choose between the state system and the regional system in which they have property, whichever produces the lowest tax amount.

Assets treated as taxable wealth and how they are valued

In general, taxable assets are those owned on 31 December of the year, less the value of any debts. For residents of Spain, assets located anywhere in the world are taxable. To arrive at net wealth assets and liabilities are valued as follows:

Type of asset or liability	Valuation rule (2)
Real estate	at the higher of cost or officially assessed value
Bank accounts	at the higher of balances as at 31 December or the average balances during the last quarter of the year
Investments, UCITS, SICAVs, unit trusts, publicly quoted shares	At their average value during the last quarter of the year
Cryptocurrencies	
Insurance bonds	At their Euro market value on 31 December
Loan assets	
Non-Spanish personal pension scheme funds, QROPS, SIPPs (1)	
Private company shares	If subject to a favourable audit report, the company's balance sheet value is used. Otherwise, the value is the higher of: <ul style="list-style-type: none"> a) the nominal value of the shares b) 5 times post tax profits, averaged over last 3 years c) Net asset value per balance sheet
Insurance policies (not investment bonds) and lifetime and temporary annuities	Capital value of the fund or the capitalised value of the income stream, capitalised according to official interest rates
Works of art	At their Euro value on 31 December
Jewellery, precious metals, stones and other assets	
Cars and boats and planes	According to official tax office value schedules
Debts including income tax, personal and property loans, unsecured or secured	At their Euro value on 31 December

(1) In the case that the beneficiary does not have access to the scheme assets (typically if below 55 years of age) the pension scheme assets are not regarded as taxable wealth.

(2) In the case of foreign assets, the value is translated into Euros at the rate applicable on the date(s) specified in the valuation rule.

Tax rates

The tax rate table of the State system is provided for general guidance. Most of the tax tables for all the Autonomous Communities have similar tax bands and rates.

Cumulative tax base €	Cumulative tax payable on cumulative base €	Additional base up to €	Tax rate on additional tax base %
0,00	0,00	167.129,45	0,2%
167.129,45	334,26	167.123,43	0,3%
334.252,88	835,63	334.246,87	0,5%
668.499,75	2.506,86	668.499,76	0,9%
1.336.999,51	8.523,36	1.336.999,50	1,3%
2.673.999,01	25.904,35	2.673.999,02	1,7%
5.347.998,03	71.362,33	5.347.998,03	2,1%
10.695.996,06	183.670,29	Thereafter	3,5%

Limiting factors to tax payable

Having calculated the amount of wealth tax payable, there is a limit to the combined total income and wealth tax that a person must pay in a tax year. The limits operate according to complex conditions but, essentially, they are as follows:

1. The first limit is that the combined cost of income tax and wealth tax should not exceed a rate of 60% of income. Income for this purpose excludes capital gains on assets owned more than one year.
2. The second limit is that the reduction in 1. above is itself limited, such that the total wealth tax payable cannot be less than 20% of the amount originally calculated.

Tax optimisation

As with all complex tax systems it is easy to make the mistake of not organising your affairs to use the exemptions and allowances that the law provides. Wealth tax is particularly complex in this respect and special care is needed in the following areas:

1. In the case that you have business assets, ensuring that you qualify for the exemption by complying with the statutory conditions.
2. Ensuring that pension assets are treated correctly.
3. Organising investments to make the best use of wealth tax limiting factors.

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