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THE SPECIAL SCHEME AVAILABLE TO THOSE WHO MOVE TO SPAIN FOR EMPLOYMENT

This scheme (currently regulated by Ley IRPF 35/2006 article 93) was introduced in early 2004 and was commonly referred to as the "Beckham scheme" as it coincided with David Beckham's arrival at Real Madrid. There have been several minor amendments since 2004 but a substantial change came into effect on 1 January 2015 making it more attractive, whilst expressly excluding the scheme for high paid sports people. It seems that Spain no longer needs to attract overpaid footballers!

The scheme applies to persons who arrive in Spain to up employment or whose existing employment transfers to Spain and, from 2023, it also applies for remote workers and self-employees planning to work from Spain 100% online as an attempt from the government to attract new taxpayers.

The application of the scheme results in a person being treated as non-resident in Spain for income tax and wealth tax purposes.

This means that income tax in Spain is only applicable to income arising from Spanish sources and wealth tax applies only to Spanish net wealth.

Employment income is taxable at the flat rate of 24% for the first 600.000 €, with any excess at 47%. This compares with the maximum resident income tax rate of 45% (this varies slightly according to the region of residence in Spain) applicable to annual earned income exceeding approximately 60.000 €.

Other tax rates apply to other types of income arising in Spain, most notably Spanish investment income and capital gains that are normally subject to a maximum rate of 19%.

The scheme is therefore of considerable potential benefit to high paid employees who can become tax residents in Spain yet pay significantly reduced income tax on their earnings and avoid tax on non Spanish investment income.

THE CONDITIONS FOR THE SCHEME ARE AS FOLLOWS:

1. A person must not have been tax resident in Spain at any time during the previous 5 years.

2. It can be applied for in the year of arrival to Spain or the following. However, the individual needs to elect for its application within six months of commencement of activity in Spain
3. A person must be offered employment in Spain by a Spanish employer or the Spanish branch of a foreign entity. A normal labour relationship must be created, subject to Spanish labour and social security law.

From 2023, it applies for workers who work 100% remote through telematic systems.

It is possible that the role of the person is that of a director, but to enable the person to elect for the Beckham scheme.

4. The scheme also applies to highly qualified self-employees that carry out activities for companies that are considered startups in accordance with the legislation.
5. From 2023, spouses and children of persons that have been granted the scheme, can also apply for it.

Since 1 January 2015, this is no longer applicable for professional sports people.

If all these conditions apply a person would be able to enjoy the benefits of the scheme during the tax year (calendar year) of arrival in Spain and the 5 subsequent tax years. Thereafter, the person would become subject to normal resident tax rules.

It is important to note that only Spanish income will be taxed in Spain, so non Spanish income of any nature will not be subject to tax in Spain.

The income tax breakeven point is approximately 55,000€, i.e. a lower level of employment income would be taxed less than under the usual income tax system, assuming that the person has no foreign income, and non-Spanish wealth is insignificant.

Because the scheme requires a person to be full time employed under a conventional contract of employment, social security contributions of approximately 36% of gross salary will apply (combined employer and employee), subject to a maximum combined annual contribution of 15,000€ p.a., mostly payable by the employing company.

Finally, it should be noted that the scheme does not mitigate exposure to Spanish Inheritance/Gift Tax.

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