



tax accounts law and labour

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Purchasing a property in Spain.

Transfer tax and VAT

The purchaser of residential property is subject to a transfer tax payable by the purchaser, a tax similar to stamp duty in the UK. The tax rate varies according to the region of Spain and is usually between 7-10%. This tax is replaced by VAT at 10% when a newly built property is sold by a developer.

Stamp Duty.

If you purchase a property from a developer, apart from having to pay VAT you will also have to pay Stamp Duty which, again, varies according to the region of Spain, and this is usually between 0,5% and 1,5%.

Notary fees, land registry fees and professional fees.

These costs usually total between 0,5-1% of the purchase price of the property.

Mortgage costs.

If you finance the purchase of the property using a Spanish mortgage, you will also incur notary fees, land registry fees and Stamp Duty as above. This, together with the bank's commissions makes a total cost of approximately 2,5-3,5% of the mortgage capital.

Holding a property in Spain.

Income tax where there is no rental activity.

Individuals are taxable in Spain on the presumed rental value of their second homes. This tax also applies to foreigners with holiday homes in Spain.

The presumed rental income is calculated at 1.1% of the Cadastral Value of the property or 2% where this value has not been revised in the previous 10 years.

The tax rate that applies to non-residents of Spain is currently 24% for non-EU tax residents and 19% for EU tax residents.

Income tax on rental income

Where actual rental income is generated in the case of EU tax residents only, property costs are deductible in calculating net taxable income.

In the case of costs directly associated with rental periods (e.g. agents fees, cleaning, laundry), then 100% of the costs are deducted. In the case of all other property costs (e.g. community fees, municipal taxes, loan interest, utilities) then these are time apportioned and only that part that relates to the actual number of rental days are deductible.

Periods that are not rented out remain subject to presumed rental income as explained above, with no costs being deductible.

The tax rate that applies to non-residents of Spain is currently 24% of the gross rental income for non-EU tax residents, whereby for EU tax residents it is 19% on the net rental income.

Wealth tax

Non-resident individuals are subject to wealth tax on the value of their Spanish assets. There is a general exemption for the first 700,000€ of net wealth and then there are eight tax bands with progressively higher tax rates depending on asset values that vary between 0.2% and 3.5%.

Municipal annual property taxes

Properties are subject to the Impuesto sobre Bienes Inmuebles (IBI), comparable to property rates in the UK. This tax is assessed on the Cadastral Value of the property at rates that vary depending on the municipality and is payable in late summer/early autumn.

In addition, the municipality will make charges for rubbish collection. This is typically a bi-annual charge.

Property owners should ensure that they pay these taxes at the due time as tax demands do not always arrive at the property address on time and late payment surcharges arise. Payment is best arranged by direct debit.

Inheritance tax (something to be aware of while you own a property in Spain)

Regardless of the tax residence or domicile, Spain taxes the beneficiaries of gifts or inheritances. Nonresidents are subject to the state system whereas residents are subject to the system that applies in the particular region of Spain where they reside.

The state system provides for tax rates that range from 7.65% to 34%. In the case of persons who are not directly related or married to the deceased, the tax rates can increase to 81.2%

Direct family members receive modest exemptions usually limited to 16,000€, whereas unrelated beneficiaries receive no exemptions at all.

Most importantly, there is no inter-spouse exemption and so the death of one spouse always results in tax payable for the surviving spouse.

However, there is the option to apply the inheritance tax law of the region of Spain where the majority of the assets to be inherited are located. This is beneficial for regions as Andalucia, Madrid or Murcia where the inheritance tax is highly reduced for close related family.

Selling a property in Spain

Capital gains tax in Spain

Spain has the right to charge tax on any profit that arises from the sale of Spanish property. The capital gain is calculated by taking the purchase and sale prices and allowing for incidental sales and purchase taxes and other costs, adjusted by indexation relief. The tax rate is currently 19%.

When the property is sold the purchaser has to pay over 3% of the purchase price to the Spanish tax office. This is a payment on account of the total tax payable by the vendor who should then file a tax declaration paying or reclaiming the difference between the 3% withheld and the correct tax amount.

Municipal capital gains tax – Plusvalía.

A tax is payable to the municipality on the sale of a property. This tax seeks to tax the theoretical increase in building land prices over the years of ownership.

The taxable base is the land element of a property's Cadastral Value. The tax rate varies according to the number of years of ownership, limited to a maximum of 20 years.

Notary fees and land registry fees

The notary fees and land registry fees are usually paid by the purchaser, unless otherwise agreed between the parties.