



GUIDE TO SPANISH TAXATION ON PROPERTY OWNERSHIP BY NON-RESIDENT INDIVIDUALS

Buying a property in Spain: What you need to know about taxes and costs

Transfer Tax and VAT: When you purchase a residential property in Spain, a transfer tax applies, similar to the UK's stamp duty. The rate for this tax can range from 6-13% based on the Spanish region. However, when a brand-new property is sold by a developer, this tax is replaced with a VAT of 10%.

Stamp Duty: If you're buying a property from a developer, in addition to VAT, you'll also be liable for Stamp Duty.

The rate for this varies regionally, generally between 0,5% to 1,5%.

Fees and Additional Costs: As a buyer, expect to bear notary fees, land registry fees, and professional charges that together account for 0,75-1,5% of the property's purchase price. When taking a mortgage to finance the purchase, there are more fees, including notary and land registry fees, stamp duty, and bank commissions. This can amount to 2,5-4% of the mortgage value.

Owning a property in Spain: Taxes and charges

Income tax without rental activity: Property owners, including foreigners with vacation homes, pay income tax on the presumed rental value of secondary properties. The presumed rental income is 1,1% (or 2% if the cadastral value hasn't been updated in the past 10 years). Non-EU tax residents have a tax rate of 24%, while EU tax residents have a rate of 19%.

Income tax with rental activity: For EU tax residents with rental income, the tax rate is 19% of the net rental income and certain property costs can be deducted. Costs linked directly to rental periods (like agent fees and cleaning) are fully deductible, while others (like municipal taxes, community fees, loan interest and utilities) are prorated based on the actual days rented out. For non-EU tax residents, the tax rate is 24% of the gross rental income, without being able to deduct any expenses.

Periods that are not rented out remain subject to presumed rental income as explained above.

Wealth tax: If you are a non-resident with assets in Spain, be aware of wealth tax. This is an annual tax that varies according to the region of Spain where the property is located. Non-residents have the right to choose between the state system and the autonomous region system where the property is located, whichever system is more favourable. The tax now applies to company ownership of Spanish assets.

The state system provides a general exemption up to a net wealth of 700,000€ (per person) of your Spanish assets, with tax bands ranging from 0.2% to 3.75%. In Andalucia and Madrid there is no wealth tax payable and other regions offer different reductions or exemptions. It is, therefore, important to establish the best option.

Great fortunes tax: This new and very controversial state tax was introduced in December 2022 and is applicable only for the years 2022 and 2023. This tax applies to individuals with a Spanish net wealth

exceeding 3.000.000€. Tax rates vary between 1,7% and 3,5% and any wealth tax paid is given as a credit against the liability to great fortunes tax.

Municipal annual property taxes: Similar to the UK property council tax or rates tax, Spain has the Impuesto sobre bienes inmuebles (IBI). The IBI tax is based on the property's cadastral value. Property owners also need to pay for services like rubbish collection. Generally, a direct debit mandate is setup with your bank so that the townhall can automatically take payment of both the IBI and the rubbish tax. Late payment is subject to automatic fines.

Inheritance and gift taxes: Spain imposes taxes on beneficiaries of inheritances or gifts, with rates varying significantly according to the region. For direct blood relatives members and spouses, there are significant exemptions that depend on the region. Unrelated beneficiaries have no such exemptions.

Depending on each autonomous region the tax rate can vary between 7,00% and 36,50%. In the case of individuals who are not directly related or married to the deceased, the tax rates can increase to 87,60%, if they are wealthy in their own right.

There are some regions like Andalucia, Madrid, Murcia and Extremadura which offer significant and indeed total exemptions from these taxes.

Selling a property in Spain: Taxes and costs

Capital gains tax (CGT): Spain charges tax on any profit that arises from the sale of a Spanish property. The capital gain is calculated by subtracting from the sale price the total costs of the sale, the purchase price and total costs of the purchase. The tax rate is currently 19% for everyone, regardless of their country of residence.

When the property is sold, the purchaser withholds 3% from the total purchase price and pays it on behalf of the vendor to the Spanish tax office. This is a payment is on account to the total CGT payable by the vendor, who needs to file a tax declaration paying or reclaiming the difference between the 3% paid in advance and the correct tax liability.

Municipal capital gains tax (Plusvalía): This is a tax payable to the town hall and it is based on the increase of the property land value over the period of the ownership of the property. When the property is sold and the sale results in a loss, the owner is exempt from paying this tax, however the owner is obliged to inform the town hall about the sale and that the plusvalia is not payable because of the loss they have incurred in the sale.

Fees and additional costs: When selling, the purchaser typically covers notary fees and land registry fees, unless a different arrangement is made.

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