

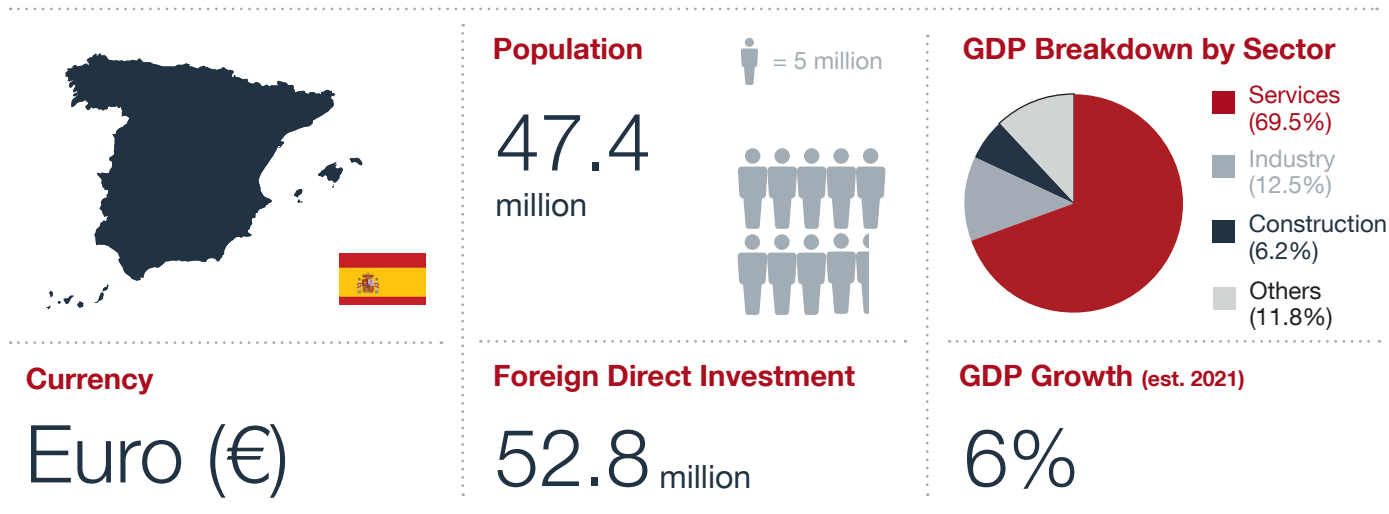
Business in Spain



Spain has been an EU member state since 1986 and is part of the eurozone. Being an Organization for Economic Cooperation and Development (OECD) member state, Spain includes in its international tax treaties the exchange information clause between the states involved.

With regards to foreign exchange control, although deregulation is the dominant feature in exchange control and foreign investment matters, there are certain reporting requirements.

As a general rule, foreign investments are only subject to reporting requirements once the investment has been made, while exchange control and capital movements are fully deregulated in Spain, creating freedom of action in this regards in all areas.



Business Climate

Rapid growth in international trade and foreign investments in recent years has made Spain one of the most internationally-oriented countries in the world.

In 2020, after the COVID-19 crisis, the global foreign direct investment (FDI) fell about 40% according to statistics recently published by UNCTAD. The global restrictions to strategic foreign investments aiming to protect national companies at such a critical time may be one of the reasons for the reduction.

In Spain, foreign investments in public order, safety or health sectors and listed or non-listed companies exceeding EUR 500 million will be subject to a government authorization, if they meet the rest of the applicable requirements. Such regime shall be in force, at least, until December 31, 2021.

Nevertheless, recent preliminary data provided by Datainvox suggest that Spain has largely avoided the worldwide uncertainty, lack of liquidity, and other negative effects from the pandemic, and foreign investments in 2021 will probably remain at very similar levels to that of 2019.

Spain has one of the most attractive domestic markets in Europe, with 46 million potential consumers and about 83 million tourists in 2019, growing each year and becoming the second country in the global ranking per number of visitors according to World Tourism Organization. Despite the unavoidable decrease from the pandemic, resulting in 19 million visitors in 2020, the average number of tourists in the last years is 61.7 million. Tourism remains to be a strategic sector in Spain.

Indeed, Spain is the world's 14th largest economy in terms of GDP and the fifth largest in the European Union according to World Bank and IFM data.

It must be highlighted that, in terms of purchasing power, Spain's per capita income is significantly higher than that of some other major economies ranked above Spain. In other words, in terms of purchasing power, the Spanish market is larger than many of the more consolidated and dynamic emerging economies.

Spain is a member state of the EU, a single market allowing the free movement of people, capital, goods and services. No import duties apply to the movement of goods within the internal market.

Spanish intellectual property laws are harmonized with those of the other EU member states, and Spain has ratified the main international treaties in this field.

The Banco de España, Spain's central bank and the supervisor of its banking sector, has contributed to establishing a range of measures since 2007 to increase the resilience of the sector in response to the international financial crisis.

The bank is currently coordinating a complex restructuring and recapitalization programmer. The Memorandum of Understanding (MoU) agreed with European authorities in July 2012 to restore confidence and stabilize the sector, further securing its footing for the future.

International Trade

Spain has been a World Trade Organization (WTO) member since 1995, and as a member of the EU, charges third country goods with the EU's Common External Tariff.

According to the EU legislation, certain goods are subject to commercial requirements such as import licenses, agri/vet or phyto certificates and pharma documents. The lack of such documents may lead to substantial delays. The appointment of a customs representative is a must. Non-EU importers will also be obliged to appoint a fiscal representative in order to account for the import VAT, which recoverability is subject to specific conditions.

Trade Agreements

The EU has free trade agreements with associations and countries, providing a higher level of mutual market access. In addition, Spain has signed almost 90 bilateral agreements with other countries, which

confers a framework for foreign investment protection in Spain for each of the signatory countries.

Foreign Trade Zones

Foreign trade zones can be found both on the peninsula and the islands as well as in the majority of Spanish airports and seaports.

Foreign Direct Investment Policy

Spain, as a member of the EU, applies the principle of free establishment and non-discrimination. Any type of business can be operated under the same conditions of a local investor by the foreign investors. The Spanish Government provides various incentives for foreign investors such as tax benefits and grants, among others.

Spain is the world's 13th largest economy in terms of Gross Domestic Product (GDP) and the fifth largest in the European Union.



Tax Regime

The main direct taxes applicable in Spain are:

- **Corporate Income Tax:** This applies to entities that are tax residents in Spain, being taxed on their worldwide income. An entity is considered a resident in Spain for CIT purposes if it has been formed in accordance with the Spanish law, or if it has its registered office or effective place of management in Spain. The general tax rate is 25%.

Individuals are also subject in Spain to Wealth Tax and Inheritance and Gift Tax.
- **Personal Income Tax:** This applies to individuals who are tax residents in Spain, being taxed on their worldwide income. Taxable income is made up of a general base, applicable to employment and rental income among others, with a progressive tax rate of 19% to 45% as a general rule (may change depending on the region) and a saving base (interests, dividends, etc.), being the progressive tax rate 19% to 26%.

Individuals are also subject in Spain to Wealth Tax and Inheritance and Gift Tax.
- **Non-Resident Income Tax:** Individuals and entities non-resident in Spain are liable for the income and gains from a Spanish source. In order to determine how non-residents will be taxed in Spain, it should be analyzed whether or not the non-resident has a permanent establishment in Spain. The tax rate would rise to 24% as a general rule, and 19% for saving income and capital gains. Permanent establishments will be subject to the general CIT rate of 25%.

The main indirect taxes applicable in Spain are:

- **Value-Added Tax (VAT)*:** Commercial supplies of goods and/or services, as well as imports and intra-EU acquisitions of goods, will be subject to Spanish VAT with the standard rate of 21%. Reduced tax rates (10% and 4%) and specific exemptions will be applicable depending on the nature of the goods or services.

Non-EU entrepreneurs will be entitled to apply for the refund of the non-deducted input VAT under specific conditions and will be obliged to appoint a fiscal representative in Spain.

Certain transactions are exempt from VAT (e.g., financial and insurance transactions, medical services or educational services).
- **Transfer and Stamp Tax:** This includes three modalities of taxable events, which are property transfers, corporate transactions and stamp duty. This tax may be very significant in real estate property transfers.

Regarding the local taxes, tax on business activities is levied on the economic activity of businesses with a profit exceeding EUR 1 million. This is an annual tax paid by businesses operating in the municipality. There are other local taxes on property and the transfer of real estate properties, vehicles property, construction works, etc.
- **Excise Duties*:** Alcohol, tobacco, hydrocarbons and power will be subject to excise duties.

*Note that for VAT and excise duties, Canary Islands, Ceuta and Melilla impose their own indirect taxes similar to the ones explained above.

Establishing a Business

There are two main types of companies: Sociedad Anónima (S.A.), or joint stock, company and Sociedad Limitada (S.L.), or limited liability company. Shareholder liability is generally limited to the amounts contributed to the company's equity. To set up an S.A. it's necessary to participate with the minimum capital of EUR 60,000. Limited liability company is the most common type of business organization for non-listed companies. The minimum capital required to set up an SL is EUR 3,000.

Spanish corporate law also foresees the so-called European Limited Company, which is a type of supranational company recognized in the community legal framework and extends freedom of establishment within the territory of the EU, enabling companies to operate under the same regulations, which are directly applicable in all member states.

The model of a European Limited Company is mainly aimed at large investments with a minimum called-up capital of EUR 120,000 although medium or even small enterprises are not excluded.

Finally, other types of business organizations or associations can also be distinguished, which in most cases do not have a separate legal personality of their members, such as temporary business associations (UTE), joint account contracts (cuentas en participación), joint ownerships (comunidad de bienes) and civil law partnerships (sociedad civil).

Employment Affairs

Nationals of the EU Member States or nationals from non-EU countries with a work and residence permit are allowed to work in Spain. In 2021, the minimum wage is EUR 950 per month or EUR 13,300 per year (which includes 12 monthly and two special payments).

However, the minimum wage for each occupational category is usually negotiated in a collective labor agreement.

- **Maternity and Paternity Leave:** 16 weeks paid for maternity leave and 16 weeks paid for paternity leave. The duration of this leave has been fully equated in 2021.
- **Unemployment Benefits:** To get some benefits, the employee shall have been contributing to Social Security for at least 360 days in the previous six years.
- **Retirement:** At present, the retirement age is gradually increasing from 65 to 67.

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