

INVEST IN THE BASQUE COUNTRY

Basic guide to labour, commercial, accounting and
tax regulations

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SPRI S.A. PRESENTATION

SPRI S.A. PRESENTATION

SPRI S.A. is the Basque Business Development Agency, a company dependent on the Department of Economic Development and Infrastructures of the Basque Government.

Our objective is to provide support to and boost Basque companies through the various programmes and services with which we transfer the different policies of the Basque Government in order to provide a service to the business infrastructure of our country.

Basque companies find those tools in the SPRI Group with which to internationalise, engage, receive funding, locate industrial land, apply new technologies, innovate and carry out the process required to enter New Industry, Basque Industry 4.0. It is also the agency commissioned by the Basque Government to attract and facilitate foreign investment from its Invest in the Basque Country service.

The SPRI Group wants to be an important reference for Basque companies through its communication channels - spri.eus, bulletins and social networks.

BASIC ACTION LINES

The general framework for the SPRI Management Plan is the Framework Programme for Employment and Economic Recovery 2017-2020. This Framework Programme is set out in the following strategic plans:



Entrepreneurship Plan 2017-2020



Industrialisation Plan 2017-2020



Science, Technology and Innovation Plan 2020



Internationalisation Plan 2017-2020

AREAS

We are encouraging the economic recovery of the Basque Country with support and services in **8 strategic areas**

01.

Industry 4.0

Helping Basque companies move towards more knowledge-intensive and value-added manufacturing activities. Reinforcing the position of the Basque Country as an industry-based economy by promoting knowledge-intensive manufacturing.

Basque Industry 4.0 is a commitment to incorporating intelligence in production means and systems, the use of emerging skills and technologies in new products and processes, the integration of advanced materials in solutions with greater added value and improved processes, the efficiency and sustainability of the resources used and the integration of high value-added services.

02.

Technology

The Technology Department manages programmes and instruments to support and promote the **Basque Government's Science, Technology and Innovation Policy**.

These programmes and instruments are aimed at strengthening the Basque Science, Technology and Innovation System and, to this end, we design aid and services to support the strategic research carried out by the research entities integrated into the **Basque Science, Technology and Innovation Network** and Basque companies in order to develop business initiatives and new products in the field of R&D.

03.

Cybersecurity

The dynamisation of the economic activity related to the application of cybersecurity helps to **strengthen the professional sector**. In this way, we are able to promote and develop a culture of cybersecurity in Basque society.

The "Basque Cybersecurity Centre" (BCSC) was set up to tackle these challenges and respond to potential security incidents in the Basque Country. It is the organisation designated by the Basque Government to **promote cybersecurity in the Basque Country**. Its mission is to promote and develop a culture of cybersecurity in Basque society, to dynamise economic activities related to the application of cybersecurity and to strengthen the professional sector.

04.

Innovation

The SPRI Innovation Department works to implement the policies emanating from the Basque Government with the aim of promoting innovation in the Basque business infrastructure.

In this regard, the Department of Economic Development and Infrastructures of the Basque Government, together with SPRI, have designed and implemented the **Innobideak strategy**, which establishes the framework for supporting innovation in business management models and is based on an advanced management model that makes it possible to tackle the challenges posed by the current crisis and lay solid foundations for the future competitive development of Basque companies.

05.

Entrepreneurship

We provide the support that new business initiatives need by providing them with comprehensive, flexible backing tailored to their needs, so that they can get under way, grow and consolidate their position successfully in the market. We prioritise **technology-based projects and / or advanced innovation (Start-ups)** in sectors defined as strategic within the Science and Technology Plan: industrial, information technologies, advanced software development, biomedicine-biosciences, nano- and micro-technology, language technology and clean and renewable energies. This work is embodied in Business and Innovation Centres (BICs).

06.

The Information Society

The **Information Society** Department supports the application of electronics and **information and communication technologies (ICTs)** in Basque companies and promotes opportunities for business and social development from using them properly. These activities are part of a global strategy designed by the Basque Government, the Basque Digital Agenda 2020.

The support instruments that we offer in this area of activity provide **technological support** in the process of incorporating **information technologies**, help the **implementation of ICT solutions for self-employed workers and microenterprises** and provide training and education on how to use them.

Thanks to the **SPRI EmpresaDigitala** initiative, we support Basque entrepreneurs to make the **incorporation and sustainable use of information and communication technologies in their businesses** a reality, providing them with access to the necessary guidance, training and resources.

07.

Internationalisation - Basque Trade

The **Basque Trade Internationalisation Department** provides tailor-made services for every company throughout the process to operate abroad, with the support of its entire **foreign network. It generates international business opportunities for Basque companies**, based on the creation and improvement of the prestige of the Basque Country and its institutions abroad.

08.

Attracting investment

The Basque Country is the third largest investment capital in Spain after Madrid and Barcelona. From a sectoral point of view, foreign investment in recent years (2014-2017) in the Basque Country has focused on medium-high technology industrial sectors. In the Basque Country, foreign subsidiaries account for only 0.52% of Basque companies, but account for more than 15% of turnover and have increased their weight in the Basque economy by more than 48% in the period 2008-2015.

The activity of the SPRI Invest in the Basque Country Department contributed to these figures, being proactive in the search for companies bringing high added value and generating employment.

**GENERAL
INFORMATION ON
THE BASQUE
COUNTRY**

GENERAL INFORMATION ON THE **BASQUE COUNTRY**

The Basque Country, which is the best connected medium-sized region in Europe according to the Financial Times in 2016, represents one of the largest industrial concentrations in Spain and its quality and productivity levels put it at the forefront of Europe.

From experience and tradition, the Basque Country is embarking on a race towards competitiveness, in a globalised and highly industrialised economy, where more than 5,000 companies have the highest quality certifications.

Thanks to a committed industrial infrastructure and a firm institutional commitment to a serious industrial policy, the Basque Country has managed to become a world reference in various industrial sectors:

- » **Advanced Machinery:** one of Europe's top producers of machine tools.
- » **Automotive industry:** more than 45% of the volume of Spain's car industry is produced in the Basque Country
- » **Aeronautics:** half of all large commercial aircraft have an engine made in the Basque Country (ITP/Rolls Royce).
- » **Energy:** the leading wind energy company, Gamesa/Siemens, has its headquarters in the Basque Country.
- » **Maritime Industry:** one of the few places in the world with such a heavy focus on the shipbuilding industry.
- » **Railway Industry:** railway systems in many cities around the world bear the seal of a Basque company, CAF.
- » **Eco-industries:** a leading region in Europe in the field of eco-industries and the circular economy.

This has all been possible thanks to its fiscal autonomy, its own tax system, which gives it regulatory and management capacity.

BIG little Basque Country expresses the strength and energy of this small country, with a drive to tackle the most complex challenges and performance indicators above the European average.

COMPETITIVENESS CLUSTER

The Basque Country has a solid industrial base, with a sector that represents 24% of GDP, constituting an attractive competitiveness cluster in which there is a firm commitment to Industry 4.0.

Basque industry has consolidated its commitment to efficiency, quality, technological development and internationalisation.

Industry has always had a specific boost within the framework of the Basque Country's economic development policy, due to its high impact on wealth, employment, technological development and the development of other sectors.

This is where the success of the Basque industrial policy lies, with the commitment of the Basque Government to support companies on the road to competitiveness.

Today, in the face of new scenarios created by the so-called fourth industrial revolution, a shared vision of industrial development has been defined to promote a competitive industrial ecosystem in all its dimensions.

Industry 4.0 has acquired a special role within the challenges of these changing times, with a paradigm shift that demands a new conceptual and strategic approach from Basque industry.

Faced with this new scenario, the Basque Country has directed its efforts towards smart specialisation, identifying those areas in which to concentrate R&D&I human and economic resources. These are three areas that are proposed as strategic: Advanced Manufacturing 4.0, Energy and Biosciences for Health. Basque industrial companies are working to be excellent beyond metalworking manufacturing, mastering new materials, designing and developing their own products, incorporating high value-added services, incorporating ICT and integrating value chains, i.e. Industry 4.0.



Basque Industry 4.0

The Basque Industry 4.0 advanced manufacturing strategy is building the foundations on which to support the development of future manufacturing in the Basque Country. It is a commitment to incorporating intelligence in production means and systems, the use of emerging skills and technologies in new products and processes and the integration of advanced materials in solutions with greater added value and improved processes, among others.

Basque Industry 4.0 is based on three strategic pillars: Basque Digital Innovation Hub (connected network of assets), Training for employment and New business models.

Basque Digital Innovation Hub

This is a network of R&D infrastructures, pilot plants and technical expertise specialising in different areas of advanced manufacturing, a digitally linked network owned by R&D centres, vocational training centres and universities that have the support of public institutions.

The network is used to develop R&D projects, scale up industrial projects, exhibit cutting-edge technologies and also as a resource for training and accelerating start-ups.

INNOVATION R&D

The European Innovation Indicators Panel (EIS), which measures the degree to which the economies of countries have the capacity and carry out innovation activities, puts the Basque Country at a level of countries with high innovation in Europe.

Committing to innovation is the hallmark of the Basque Country, a commitment that has brought it recognition and resources in Europe. In addition to being the autonomous community that devotes the highest percentage of its GDP to R&D, 1.89%, its scientific-technological and business capacities have put it at a level of countries with **high innovation** in Europe. Among the indicators that appear in the EIS panel, the Basque Country stands out in three dimensions compared to the European average: Human Resources, Links and Entrepreneurship, and Research Systems.

The Basque Country has both the scientific and technological potential required and linked to a recognised business infrastructure to focus its efforts and become world leaders in terms of some of the priorities identified as strategic:

BASQUE SCIENCE AND TECHNOLOGY NETWORK

The Basque Science, Technology and Innovation Network is made up of a group of Science and Technology agents who, working in a network, carry out specialised, excellent, market-oriented research that contributes to creating wealth and well-being in the Basque Country.

The network is made up of 120 accredited agents:

- » Special agents
- » Basic Excellence Research Centres (BERC)
- » University Research Structures
- » Cooperative Research Centres (CRC)
- » Multi-focused Technology Centres
- » Sectoral Technology Centres
- » Science, Technology and Innovation Dissemination Agent
- » Supply/Demand Brokerage Agents
- » R&D Business Units
- » Healthcare R&D Organisations and Healthcare Research Institutes

The Basque Country has a complete map of technological infrastructures at the service of the company:

- » Universities
- » Hospitals
- » Research centres of excellence
- » Cooperative Research Centres
- » Technology centres
- » etc.



Basque Research & Technology Alliance (BRTA)

Consortium to promote the coordination of technology agents to tackle the technological and industrial challenges facing the Basque Country and improve its international positioning.



TALENT

48.9% of people aged between 30 and 34 have undergone higher education, a percentage higher than the average for the European Union (37.9%) and Spain (42.3%). With a public university, which accounts for eight out of ten students, three private universities, almost a hundred vocational training centres, five international schools, more than ten official language schools, the world's first Gastronomic University (Basque Culinary Center), Digipen (Institute of Technology Europe-Bilbao) and the Institute of Machine Tools (IMH), the Basque Country is the autonomous community with the most educational technology in its classrooms.

Vocational training in the Basque Country is the first EU 'test bench' for introducing applied innovation learning. In the Basque Country, where the economic activity revolves around industry, vocational training is a fundamental pillar for preparing and getting people who are going to enter the labour market qualified. Vocational training in the Basque Country is committed to innovation in learning, methodologies and the type of classrooms and centres, and to vocational training that provides support to small and medium-sized enterprises.

Dual Vocational and University Education: practically all the degrees in the Basque university system include an agreement with companies that allows training to be carried out in a company.

A WELL-CONNECTED COUNTRY



The Basque Country is strategically located in the centre of the European Atlantic Axis. This location, as a transit zone between the peninsular markets and the rest of Europe, makes this Autonomous Community a core area of influence.

Its location and a first-rate logistics and transport infrastructure network, which is perfectly coordinated and interconnected internally and with the major European networks, make the Basque Country an incomparable multimodal logistics platform for transporting goods and people in Southwest Europe. The Basque Country is the gateway to Europe as the logistics hub of the European Atlantic Axis and the rest of the world, particularly Latin America, where there is a notable presence of Basque companies and institutions.

The fDi report from the Financial Times British publishing group put the Basque Country as the top medium-sized region in Europe in terms of connectivity (logistics), with the sixth best strategy for attracting foreign investment. Moreover, it was the fifth best region in Southern Europe in terms of all investment attraction indicators as a whole.

AUTONOMY

The Basque Country has regulatory and management capacity thanks to its own financial system. The Basque Country enjoys a high level of self-government in such important matters as health, education, security, housing and finance, an autonomy emanating from the Statute of Gernika, one of the fundamental pillars of its self-government.

Another of the fundamental pillars of Basque self-government is the 'Economic Agreement', the financial support of the Autonomous Community that allows Basque institutions autonomy to collect and administer taxes from citizens based on their own budgets and the agreements signed with the Spanish central administration. All these circumstances have made it possible to create its own bodies, such as EITB - Basque Radio and Television; the Ertzaintza, the autonomous police force with more than 7,000 officers, and to have full competence in road and hydraulic infrastructures, economic and industrial development and regional planning and training.

Business development and the promotion of the creation of new companies and businesses are two of the most important commitments of Basque institutions. These commitments provide the tax incentives and deductions that Basque public administrations make available to people to create, develop and consolidate companies.

A COUNTRY TO LIVE IN

The Basque Country is a unique country, in social, economic, industrial and cultural terms. Balanced social and economic development, the search for excellence, the transformation processes of cities, the internationalisation of companies and the firm commitment to innovation and being among the best in the world make the Basque Country one of the most attractive places to live and invest in. The Human Development Index (HDI) for the Basque Country puts Basque society among the most developed on the planet.

Tradition and innovation, prehistory and cutting-edge, green and blue. The Basque Country has its own particular way of looking at the world from its small region full of colours, smells and flavours, which invite people to come, get to know it and have unique experiences. Every year, the Basque Country hosts an increasing number of visitors.



GENERAL REGULATORY
FRAMEWORK ON
FOREIGN INVESTMENTS
IN THE BASQUE
COUNTRY

LEGAL SYSTEM FOR FOREIGN INVESTMENTS IN THE BASQUE COUNTRY

01.

FREEDOM OF INVESTMENT AS A GENERAL RULE

A foreign investor may invest freely in the Autonomous Community of the Basque Country (hereinafter ACBC) as a general rule without the need for prior authorisation or notification, as foreign investments ¹in Spain are subject to an *a posteriori* declaration system for merely administrative and statistical purposes.

This means that, once an investment has been made, the foreign investor must declare it in the Investment Register of the Directorate General of International Trade and Investments of the Ministry of Economy, Industry and Competitiveness of the Spanish Government **within a maximum period of one month**.

<http://www.comercio.es/es-ES/inversiones-exteriores/declaracion-inversiones-exteriores/Paginas/declaracion-inversiones-exteriores.aspx>

02.

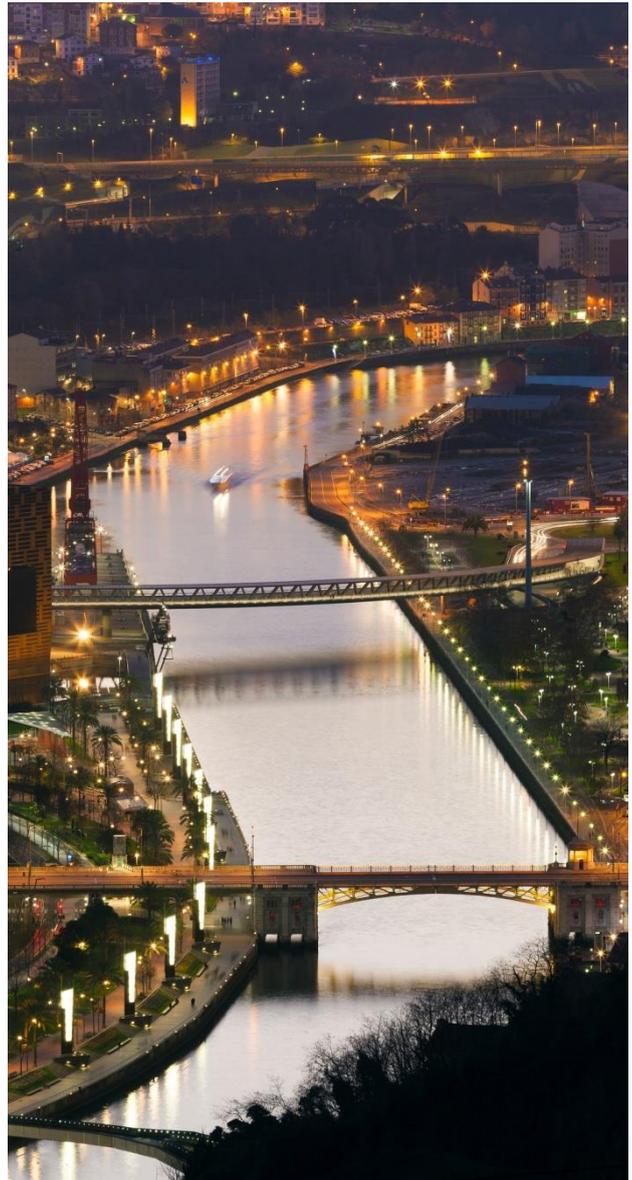
EXCEPTIONS TO AND CLARIFICATIONS OF THE GENERAL RULE

- » *Investments made from tax havens.* As a general rule they require an **advance administrative declaration**² with there being exceptions³ for certain investment types and volumes:
- » *Investments made in Defence-related activities.* These require the prior authorisation of the Council of Ministers of the Government of Spain
- » *Investments in property by non-EU Member States for their diplomatic headquarters.* These require the prior authorisation of the Council of Ministers of the Government of Spain

03.

ADDITIONAL REGULATORY REQUIREMENTS FOR SPECIFIC SECTORS

Investments in the sectors of air transport, radio, raw materials, minerals of strategic interest and mining rights, television, gambling, telecommunications, private security, manufacturing, marketing and distribution of weapons and explosives, and activities related to national defence (in addition to prior authorisation) **must meet the criteria required by the competent bodies recognised for this purpose in the specific regulations of each sector of activity.**



¹The types of investment transactions and the holders thereof are those described in the investor and investment target section of the **Foreign Investment Regime Table in the ACBC (and in Spain)**. Transactions other than those in the table are completely liberalised, without any communication being required for them. This is without prejudice to any sectoral regulations that may apply to them and to the provisions of the rules controlling them. Holders other than those in the Table are not considered to be a liable investor and therefore this not considered a foreign investment for all purposes.

²A prior declaration is not equivalent to prior authorisation, and, once a declaration has been made, an investor can make an investment without waiting for notification from the Administration. In any event, the declaration is valid for six months, meaning that, once notified, the investment must be made within that period.

³(1) Investments in publicly issued or offered transferable securities, whether traded on an official secondary market or not. (2) Holdings in investment funds registered in the Registers of the Spanish National Securities Commission (CNMV). (3) Cases in which the foreign holding does not exceed 50% of the capital of the Spanish company in which the investment is made. (4) Acquisitions of foreign investments in Spain as a result of lucrative transfers *inter vivos* or *mortis causa*.

04.

NON-RESIDENT⁴ HOLDERS WITH AN OBLIGATION TO DECLARE as a general rule (and the notary public where applicable), except for certain transactions.

In general, an investment will be declared by the investor (the non-resident holder). When the transaction has involved a Spanish notary public, the latter is obliged to submit information on said transactions to the Investment Register.



⁴Unless there is an express rule to the contrary, foreign investments must not be formalised before a Spanish notary public. Only as a result of their legal system or by agreement of the parties.

⁵Exceptions contained in the Foreign Investment Regime Table in the ACBC.



Investor

(holder of a foreign investment)

- Individuals not resident in Spain⁷.
- Legal entities domiciled abroad.
- Public entities with foreign sovereignty⁸.



Investment target

(types of investment transactions subject to declarations⁹)

- Holdings in Spanish companies¹⁰.
- Establishment and expansion of branch offices.
- Subscription and acquisition of securities representing borrowings issued by residents (bonds, debentures, promissory notes). Holdings in investment funds registered in the Registers of the Spanish National Securities Commission.
- The acquisition by non-residents of properties situated in Spain, the amount of which exceeds 3,005,060 euros, or when the investment comes from tax havens, regardless of the amount.
- The constitution, formalisation or holdings in joint venture agreements, foundations, economic interest groupings, cooperatives and joint ownership arrangements, with the same conditions applicable to the acquisition of properties by non-residents.



Obligation to declare

- In general, an investment will be declared by the investor.
- When the transaction has involved a Spanish notary public, the latter is obliged to submit information on said transactions to the Investment Register.
- Exceptions:
 - In the case of investments in securities, investment service companies, credit institutions or other intermediary financial institutions have an obligation to declare.
 - In the case of investments made in securities not traded on secondary markets, but where the parties have voluntarily deposited or registered such securities, the depositary or administrator of such securities has an obligation to declare.
 - In the case of investments in Spanish investment funds, the fund management company has an obligation to declare.

⁷Spaniards or foreigners domiciled abroad, or who have their main residence there. Individuals of Spanish nationality and legal entities domiciled in Spain are presumed to be resident in Spain unless there is evidence to the contrary.

⁸A Spanish company which is majority owned by foreign capital is not considered to be an investor. A change in the registered office of legal entities or the transfer of residence of individuals will determine the change in the classification of an investment as being a Spanish investment abroad or a foreign investment in Spain.

⁹The types of investment transactions not covered (e.g. equity loans) are fully liberalised, without any communication being required. This is without prejudice to any sectoral regulations that may apply to them and to the provisions of the rules controlling them.

¹⁰This includes both the constitution of the company and the subscription and acquisition of all or part of its shares or the assumption of shares in the company. It also includes subscription rights on shares, debentures convertible into shares or other similar securities which, by their nature, give the right to a holding in the capital, and any legal business by virtue of which political rights are acquired.



Monitoring

The Directorate General of International Trade and Investments of the Ministry of Economy, Industry and Competitiveness of the Spanish Government may require Spanish branches of non-resident holders to submit an annual report on the execution of investments or any other type of information they deem necessary.



Declaration forms

A1: «Declaration of foreign investment in securities. Monthly or annual summary».

A2: «Declaration of foreign investment in securities. List of monthly transactions or annual deposits».

DP-1: «Prior declaration of foreign investment from tax havens in non-listed companies, branches and other forms of investment».

DP-2: «Prior declaration of foreign investment from tax havens in property».

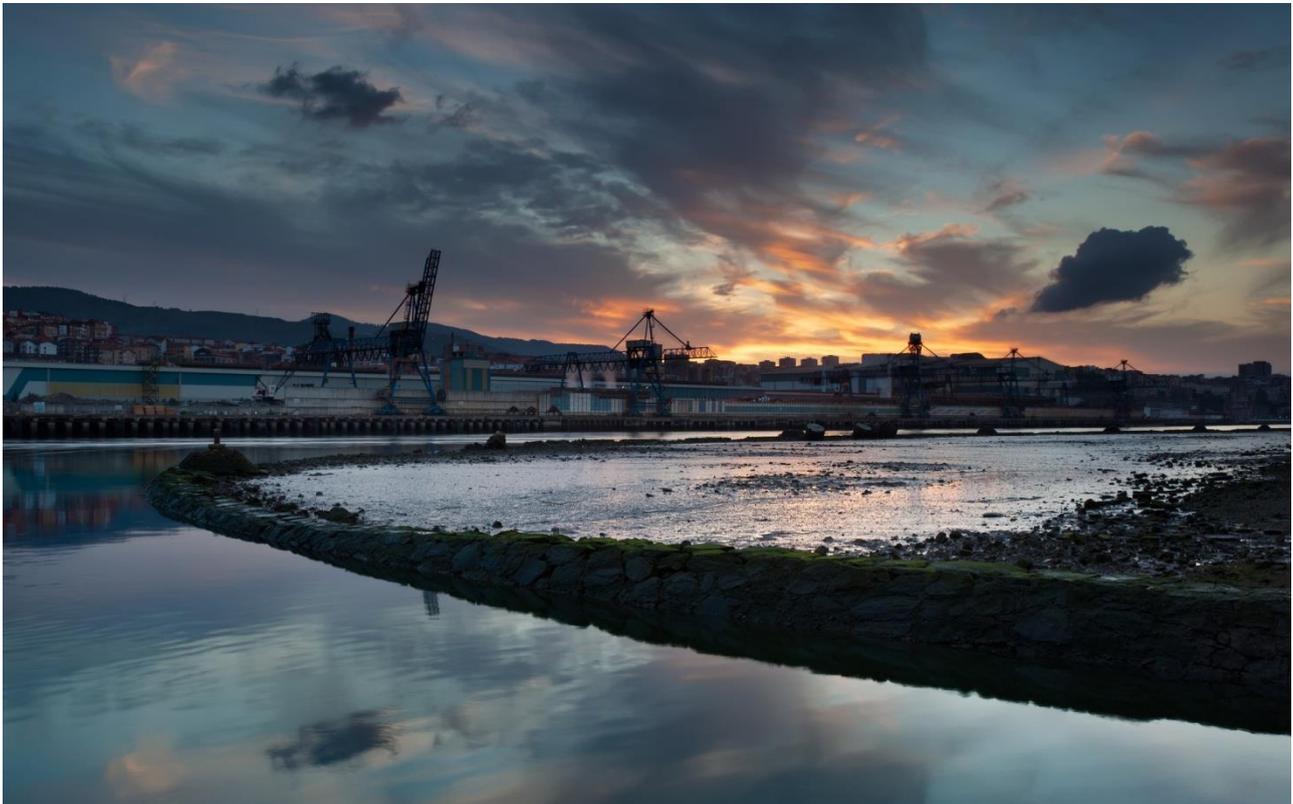
D-1A: «Declaration of foreign investment in non-listed companies, branches and other forms of investment».

D-1B: «Declaration of liquidation of foreign investment in non-listed companies, branches and other forms of investment».

D-2A: «Declaration of foreign investment in property».

D-2B: «Declaration of liquidation of foreign investment in property».

D-4: «Annual report on the development of investment in Spanish companies with foreign holdings in their capital and branches».



TRANSFERS ABROAD AND EXCHANGE CONTROL

The basic principle on which legislation in the Basque Country is based is the **freedom of capital and financial transactions with foreign entities**. Thus, any acts, business, transactions and operations between residents and non-residents that involve or may result in foreign collections and payments and transfers to or from foreign countries and changes in accounts or financial debtor or creditor positions vis-à-vis foreign countries are free, subject to certain limitations regulated by sectoral regulations.

Notwithstanding the foregoing, there are certain reporting obligations regarding such movements.

01.

DECLARATION OF FOREIGN TRANSACTIONS TO THE BANK OF SPAIN (Bank of Spain Circular 4/2012)

Individuals and legal entities (public or private) resident in Spain that carry out transactions with non-residents or hold assets or liabilities abroad must declare / notify them to the Bank of Spain merely for information and statistical purposes.

» **Obligation to make a declaration / communication:**

- Individuals that usually reside in Spain¹¹.
- Legal entities with registered offices in Spain.
- Branch offices and permanent establishments in Spanish territory of individuals or legal entities resident abroad.
- Others to be determined by legislation in similar cases.

» **Frequency of declaration / communication:** This depends on the volume of the transactions made by the persons obliged to declare or communicate during the immediately preceding year or, where applicable, on the balances of their assets and liabilities at the end of the preceding year:

Transaction volume / asset and liability balances	Frequency	When to declare
Volume < €1 mm	Only at the express request of the Bank of Spain	2 months from the date of request
€1 mm < Volume < €100 mm	Yearly	20 days after the end of each calendar year
€100 mm < Volume < €300 mm	Quarterly	20 days after the end of each calendar quarter
Volume > €300 mm	Monthly	20 days after the end of each calendar month

¹¹Except for accredited Spanish diplomats abroad and Spanish staff providing services in Spanish embassies and consulates or in international organisations abroad.

02.

DECLARATION OF IMPORT AND EXPORT of certain payment means¹² to the Bank of Spain

The outflow or inflow out of or into Spanish territory of payment means for an amount equal to or greater than 10,000 EUROS or its equivalent in foreign currency is subject to prior administrative declaration. If no such declaration is made, Spanish customs officials may requisition these payment means.

03.

DECLARATION OF MOVEMENTS¹³ of certain payment means in Spanish territory to the Bank of Spain

The movements in Spanish territory of payment means for an amount equal to or greater than 100,000 EUROS or its equivalent in foreign currency is also subject to prior declaration.



¹²“Payment means” are considered to be paper and metal money - euros or foreign currency - cheques made payable to the bearer denominated in any currency, and any other physical means, including electronic ones, designed to be used as a means of payment to the bearer. For the sole purpose of the outflow or inflow out of or into national territory, “payment means” shall also mean bearer-negotiable instruments, including monetary instruments such as travellers’ cheques, negotiable instruments including cheques, promissory notes and money orders, whether issued to bearer, endorsed without restriction, issued to the order of a fictitious payee or in any other form by virtue of which title thereto is transmitted upon delivery, and incomplete instruments including cheques, promissory notes and money orders, signed but with the name of the payee omitted.

¹³“Movement” is understood to be any change of place or position occurring outside the domicile of the holder of the payment means.

APPLICABLE REGULATIONS

01.

ON FOREIGN INVESTMENTS

- » Royal Decree 664/1999 of April 23 on foreign investments.
<https://www.boe.es/buscar/doc.php?id=BOE-A-1999-9938>
- » ORDER from the Ministry of the Economy of May 28, 2001, laying down the procedures applicable to foreign investment declarations and the liquidation of foreign investments, and the procedures for submitting annual reports and authorisation dossiers.
https://www.boe.es/diario_boe/txt.php?id=BOE-A-2001-11164
- » Resolution from the Ministry of Economy and Competitiveness of July 27, 2016, on the Directorate General of International Trade and Investment, approving the foreign investment declaration forms when the person obliged to make a declaration is an investor or a company with foreign holdings, which replaces previous Resolutions on this matter.
https://www.boe.es/diario_boe/txt.php?id=BOE-A-2016-7855.

02.

ON THE CONTROL OF FOREIGN EXCHANGE AND TRANSACTIONS

- » Law 19/2003 of July 4 on the legal system governing the movement of capital and financial transactions abroad and on certain measures to prevent money laundering.
<https://www.boe.es/buscar/doc.php?id=BOE-A-2003-13471>.
- » Royal Decree 1816/1991 on foreign financial transactions.
<https://www.boe.es/buscar/doc.php?id=BOE-A-1991-30763>



**WAYS TO SET UP IN
THE BASQUE
COUNTRY**

DIFFERENT WAYS OF SETTING UP

At the time of investment/starting an activity in the Basque Country, there are various alternatives:

01.

Purely contractual link (Agency, Distribution, Dealership, Franchise, Engineering, Licence, etc.)

02.

Opening a **branch office** has no legal personality of its own and it is dependent on its parent company, although its registration is required in the Mercantile Register, being considered a permanent establishment for tax purposes.

03.

Taking a shareholding in a company or acquiring it (subsidiarisation).

04.

Joint venture agreement: Establishment of a joint venture (JV. - for specific work with no legal personality of its own), economic interest grouping (EIG. - for an ancillary activity with its own legal personality); equity loan / joint venture agreements (involves a share in the profits from a contribution to the capital of a mercantile company).

05.

Establishment of a **trading company**. The most common forms are the limited liability company and public limited company.

LIMITED LIABILITY COMPANY



Requirements

- The **minimum number of shareholders** is 1 and there is no maximum limit.
- The **liability** of the shareholders is limited to the **capital contributed to the company** and they are not liable for the company's debts with personal assets.
- The **minimum capital is €3,000** fully paid up and divided into shares.
- The shareholders' contributions can be monetary (money) or in kind.
- Non-monetary contributions do not have to be valued by an independent expert.
- The position of administrator / director may be **indefinite**.
- It may not be listed on the stock market or issue shares or bonds.



Advantages

- The **procedures** for creating and maintaining the company **are relatively simple**, as are the costs of setting it up.
- The **liability of the shareholders** is limited to the capital and assets held by the company and does not relate to their private assets.
- The **minimum share capital** is very low in comparison to other trading companies.
- The number of shareholders may be **one** and the company may be a **sole proprietorship**.



Potential disadvantages

- The **shares** into which a limited company is divided **are not easily transferable**.
- Risk of “under-capitalisation” when requesting funding, with the possible requirement of personal guarantees from shareholders.

PUBLIC LIMITED COMPANY



Requirements

- The minimum number of shareholders is 1.
- The liability is joint and several between the shareholders and is limited to the capital contributed.
- The **minimum capital is €60,000** and 25% must be paid up.
- Non-monetary contributions must be valued by an independent expert, with the exception of specific assets (transferable securities subject to quotation or a recent report).
- The position of administrator / director is for a maximum of **6 years**.
- They can be listed on the stock market and are supervised by the Spanish National Securities Commission (CNMV).



Advantages

- The **shares** into which a company is divided **are easily transferable**.
- As many investment partners as the company wishes can be incorporated.
- The **liability of the shareholders** is limited to the capital and assets held by the company and does not relate to their personal assets.



Potential disadvantages

- The **procedures for establishing and maintaining** a company are more complex and costly than those for a limited liability company.
- The **minimum share capital** is higher than for a limited liability company, as **€60,000** is required instead of only **€15,000** when a company is created.



06.

Individual Entrepreneur / Self-employed person or a stakeholder in a civil society organisation or joint ownership arrangement. Their liability for debts is not limited and they handle debts with personal assets.

Limited Liability Entrepreneur: A new individual entrepreneur figure included in the law on entrepreneurs that is registered in the commercial register can limit their liability.

07.

Other types of entities such as the social economy (Cooperative Societies and Employee-Owned Companies), or non-profit entities such as Associations and Foundations.

GENERAL PROCEDURES FOR SETTING UP A TRADING COMPANY

In general, the ordinary procedure for setting up and registering a trading company can be carried out within a **period of between one and two months**.

01.

Certificate of availability of a company name for registration: This is requested from the Central Mercantile Register in Madrid, being able to request up to 5 names.

The Mercantile Register will issue a name certificate within a period of between 1/3 days and the reservation of these denominations will be valid for 6 months.

02.

Application for Provisional Tax Identification Number: An application is made to the Regional Treasury of the corresponding Regional Territory by means of Form 036, to which must be attached:

- A copy of the foreigners' ID or national ID card (representative of the company)
- Certificate of availability of a company name for registration:
- Agreement to set up the company

03.

Opening a bank account: The founding partners will have to transfer the amount of the share capital to this account, with the financial institution issuing the corresponding certificate of disbursement that will be provided in the articles of association.

04.

Issuance of Public Deed: Partners must appear before a Notary Public, providing:

- Identification of founding partners
- Statement of real ownership
- Certificate of availability of a company name for registration
- Articles of Association of the Company
- Bank certificate accrediting the deposit of the share capital
- Foreign investment declaration form if any of the partners is non-resident.

05.

Registration of the registered office at the Madrid Mercantile Register: Once the deed has been presented to the corresponding Provincial Treasury, it will be sent to the Mercantile Register. The Register must register the establishment of the company within a period of 15-30 days

06.

Obtaining a permanent tax ID number: By means of Form 036 before the corresponding Regional Treasury to which, among other documents, a copy of the public deed of incorporation registered in the Mercantile Register will be attached.

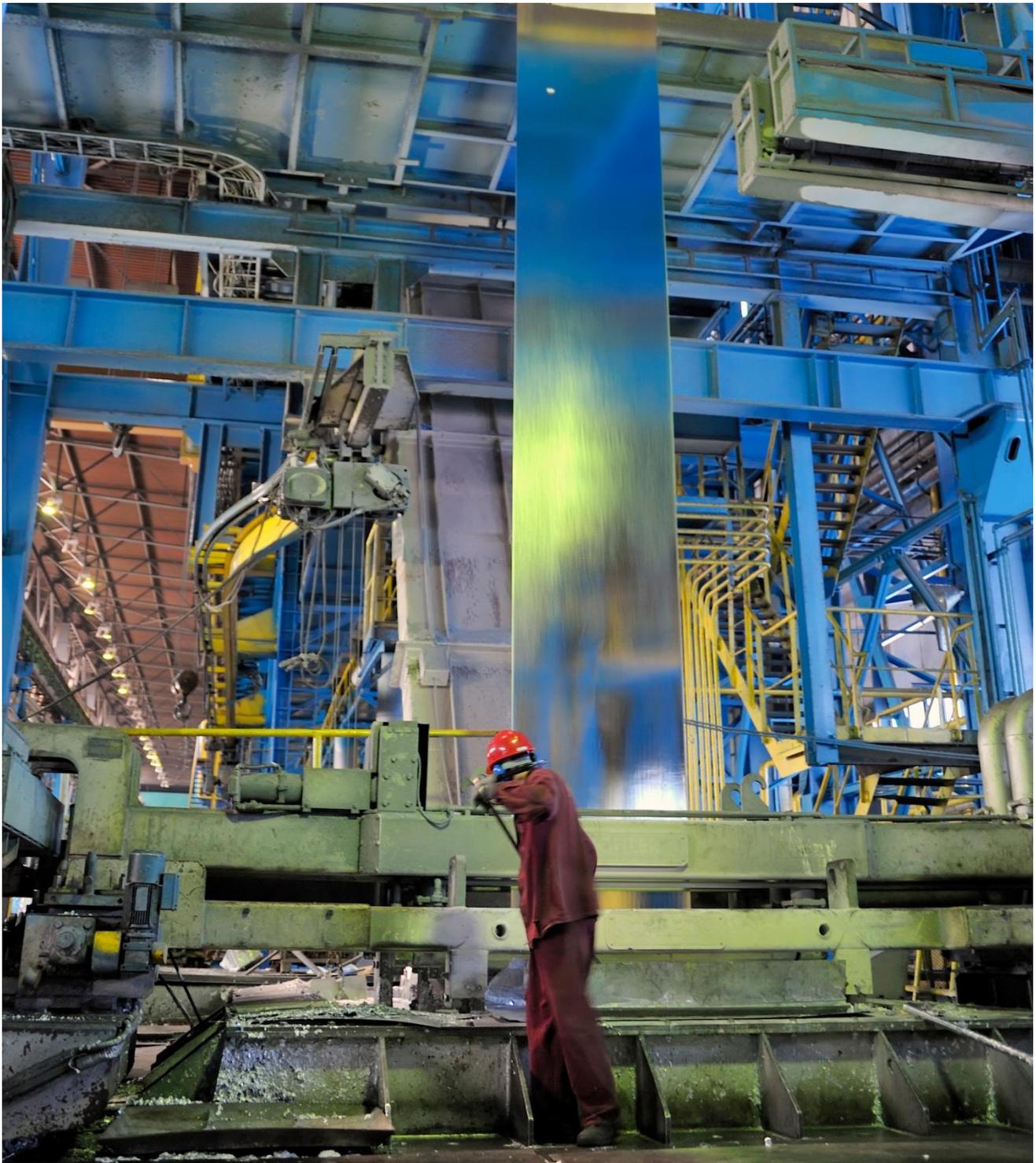
07.

Registration with the tax authorities and employment authority: By means of Form 036 (registration for the corresponding tax obligations: VAT, Corporation Tax, Withholding Tax, etc.) a Form 840 (registration for Tax on Business Activities) at the corresponding tax authority.

For labour-related purposes, the company must register with the Social Security, Social Security General Treasury, to obtain a corresponding contribution number, register workers and notify of the opening of a work centre.

Likewise, the regulations (Law 14/2013 of September 27, on support for entrepreneurs and their internationalisation) establish a faster **telematic procedure** for incorporation and registration than the normal process. It applies to limited liability companies in which standardised articles of association forms are used. For this type of express procedure, the incorporation time is considerably reduced to a period of approximately **15 working days**.

The establishment of companies by **non-resident natural persons or legal entities** may extend the aforementioned periods, as these partners must first be identified before the corresponding Regional Treasuries, by obtaining their foreigners' ID number (natural persons) or tax ID number (legal entities). For this purpose, different documentation must be provided from the countries of origin/residence, which in all cases must be **legalised, apostilled and translated into Spanish**.



**MAIN ASPECTS
RELATING TO LABOUR
AND SOCIAL SECURITY**

Labour and social security regulations in Spain and the Basque Country have undergone various changes in recent years, aimed at making the labour market more flexible and modern.

Due to its importance and impact, Law 3/2012 of July 6 on Urgent Measures for Reforming the Labour Market stands out, the aim of which was to establish a legal-labour framework that would contribute to the effective management of labour relations and facilitate the creation of jobs and job stability.

Also noteworthy is Law 14/2013 of September 27, on support for entrepreneurs and their internationalisation, which established measures relating to promoting multiple jobs and self-employment, and measures to encourage the inflow of investment and talent into Spain.

However, Spanish labour and social security legislation derives from a broad set of laws that are streamlined and correct each other, the general content of which is summarised in this chapter of this guide, from contracting to obligations in the field of occupational risk prevention.

Before making an investment in a specific productive sector, it is important to know and review the existing regulations in force by which it is affected, as this will determine the particular conditions and aspects of labour relations in that sector.

In general, the labour relations of workers are governed, within the framework of the whole of Spain, by the provisions of Royal Legislative Decree 2/2015 of October 23, which approves the **STATUTE OF WORKERS' RIGHTS** (hereinafter, SOWR), a basic law, which regulates matters of general concern, such as: existing contract types, the rights and obligations of each of the parties involved in an employment relationship..., but which does not cover each of the special aspects of the world of work in the different production sectors.

Therefore, the specificity of the regulation of these special aspects, such as remuneration for workers, the working day and the distribution of work time, is in the hands of collective bargaining, which is carried out between companies and workers' representatives, and is implemented through **COLLECTIVE AGREEMENTS**, signed between the parties, which may be related to the scope of the company, province or sector.

In addition, these agreements can be of general effectiveness, which is an important characteristic of the Spanish legal system, or only for the subjects represented in the negotiation and those who freely decide to adhere to them. In both cases, they are regularly reviewed, as agreed by the negotiators.

The legislative changes introduced in recent years in this area have gradually adapted and modernised the labour regulations in force, so as to make them more flexible, in order to make the labour market more dynamic and promote employability and investment.

01.

EMPLOYMENT CONTRACTS

The different contractual modalities in force in the current regulations are divided into the following large blocks:



PERMANENT CONTRACT

There is no set time limit on the duration of the provision of services.



TEMPORARY CONTRACT

Its purpose is to establish an employment relationship for a specific period of time.



TRAINING AND APPRENTICESHIP CONTRACT

This is an instrument for promoting the insertion into the labour market and training of young people, alternating work and training activities.



INTERNSHIP CONTRACT

Its purpose is for the worker to obtain professional practice appropriate to the level of studies undertaken.

The employer can check the worker's skills by agreeing on a **TRIAL PERIOD**, during which either party, both the employer and worker, can freely terminate the employment contract without the need to allege or prove any cause, give prior notice or pay compensation.

Any **discrimination** in hiring or in the workplace, on grounds of sex, marital status, age, race, social class, religious or political ideology, affiliation or not to a trade union or arising from the different official languages in Spain, is prohibited.

Likewise, **hiring minors under 16 years of age** to carry out any work is **prohibited** and there are certain limitations applicable to the work of persons under 18 years of age (no overtime, no night work, etc.).

02.

SUBSTANTIAL CHANGES TO WORKING CONDITIONS

Companies may substantially change the working conditions of their employees provided that there are proven **economic, technical, organisational or production reasons** and that the legally established procedure for this purpose, contained in Article 41 of the SOWR, is respected.

Likewise, there is the possibility of not applying the working conditions established by collective agreement, by means of a specific procedure, when there are economic, technical, organisational or production reasons that require the agreement of the workers' representatives and the determination of the new conditions to be applied in the company.

03.

TERMINATION OF EMPLOYMENT CONTRACTS

Once a trial period has passed, an employment contract may be terminated for reasons that do not involve a conflict between the employer and the employee, such as mutual agreement, expiration of the agreed duration of the contract, death or retirement of both the employer and the employee, but for cases in which the contract is terminated by the employer, the current employment regulations cover three main cases, the characteristics and main implications of which are listed below:



COLLECTIVE REDUNDANCIES

These take place given for economic, technical, organisational or collective production reasons whenever they affect a significant number of the company's workforce in a period of 90 days.



OBJECTIVE DISMISSAL

This takes place in the following cases:

- » Ineptitude of the worker that became known or occurred after their effective placement in the company.
- » The working filing to adapt to any changes made to their job - before dismissing the worker, the employer must offer the employee a course aimed at facilitating their adaptation to the changes in their job. An employee cannot be dismissed until at least two months have elapsed since the change was introduced or the training period has been completed.
- » When there are economic, technical, organisational or production reasons (see the definition of the causes in the event of collective redundancies).
- » Justified but intermittent absences that reach 20% of the working days in 2 consecutive months, provided that the total absences in the previous 12 months is 5% of the working days or 25% in 4 discontinuous months within a 12-month period.



DISCIPLINARY DISMISSALS

A serious, culpable breach by the worker due to committing one or more of the faults covered by the collective agreement or legal regulation that applies in the company.

In this regard, an employee dismissed for any of the objective or disciplinary reasons set out above may appeal the company's action to the administrative body of mediation, arbitration and conciliation in the first place and to the labour courts in the event of not reaching an agreement before the administrative body.

A dismissal may be classified as:

FAIR or lawful, with the termination of the employment contract being valid in the terms initially proposed and in accordance with which the established procedure has been followed.

UNFAIR, if the legal cause is not proven, or an incorrect procedure has been followed. In this case, the employer may choose between reinstating the dismissed employee and paying them any lost wages, or compensating them at a rate of **33 days' pay** per year worked, within the legally established limits, unless the dismissed employee is a workers' representative, in which case the employee has the right to choose.

NULL, if it is proven that the decision to dismiss is due to some form of discrimination, or involves a violation of the fundamental rights of the employee, leading to the immediate reinstatement of the employee and the payment of lost wages.

It is highly recommendable to have the specialist advice of a professional with knowledge of Spanish labour legislation before undertaking any type of termination of employment contracts as indicated above, both to assess the causes that support the termination action and to define the procedure to be followed.

04.

HIRING OF SENIOR MANAGERS AND OTHER LABOUR RELATIONS EXCLUDED FROM THE LABOUR SPHERE

There are various types of relationships within the Spanish labour system which, due to their nature or specific conditions, are regulated differently from those applicable to the majority of employees.

From the perspective of foreign investment, it is interesting to note:

a) Senior management

The employment conditions of **senior managers** (Royal Decree 1382/1985 of August 1) are subject to fewer limitations than those of other employees, and the parties

involved, the company and manager have a wide margin of negotiation to define their relationship.

b) Financially dependent self-employed employees

These are self-employed workers who carry out their economic activity habitually, personally, directly and predominantly for a single individual or legal entity that represents at least 75% of their income.

Their legal system is regulated by Law 20/2007 of July 11. They are a group of people who, although they are considered to be self-employed, have a higher level of protection.

05.

REPRESENTATION OF WORKERS AND COLLECTIVE BARGAINING

Workers are represented by **TRADE UNIONS**. At company level, depending on the number of workers, this representation is carried out by unitary representation (staff delegates or works councils, which may or may not belong to a union) and union representation (union branches and union delegates representing a union in the company).

It is not compulsory for companies to have workers' representation, if the workers have not promoted union elections, but if they promote them, the company is obligated to allow union elections to be held and such representatives to be appointed under the terms provided for by law.

In general, unitary and union representation have the role of receiving certain information appraised in the SOWR in order to ensure compliance with labour regulations.

They have the right to take part in negotiations prior to executing collective procedures (e.g. substantial changes to working conditions),

collective redundancies, etc.) and to issue reports prior to full or partial transfers of installations, mergers or any change to the legal status of the company, among others.

Certain trade unions and business associations, or the companies themselves, have the power to reach agreements with the force of law for all subjects within their scope of application, provided that such agreements are processed in accordance with a certain procedure: this is called statutory collective bargaining.

In addition, business associations, or the companies themselves, may reach agreements with collective subjects representing workers who do not comply with said formal requirements and/or business standing: this is called extra-statutory collective bargaining and, unlike statutory collective bargaining, it applies to the individual subjects expressly represented, and to those who freely decide to adhere to the agreement once it has been signed.

Collective bargaining can also take place at various territorial (state, autonomous community, provincial) and sectoral levels, depending on the sector of activity.

Lastly, collective bargaining may include the most important aspects of the employment relationship (collective agreement) or simply refer to specific aspects (agreements or pacts).

The duration of such agreements will depend on what has been agreed between the parties. Typically, the agreed term is one, two or three years at the most.

What happens at the end of the agreed term must also be agreed, with the usual being a permanent extension in the absence of any complaints (promotion of a new negotiation by one of the parties, or automatic at a certain date), and ultra-activity (extension of the validity of collective agreements after their expiration) once a complaint has been made, for one year from the end of the agreed term unless the parties themselves determine another term. It is increasingly common for the parties to agree an indefinite ultra-activity of the agreement, until a new agreement expressly replaces it.



06.

VISAS AND WORK AND RESIDENCE PERMITS

Law 14/2013 of September 27 on Support for Entrepreneurs and their Internationalisation, as amended by Law 25/2015 of July 28, provides for different types of visas and work and residence permits for foreigners to whom European Union law does not apply:

- » Non-resident foreigners who intend to enter Spanish territory for the purpose of making a significant capital investment, stipulated by the Law itself in certain cases.
- » Non-resident foreigners, or foreigners residing legally in Spain, who intend to carry out an entrepreneurial activity, understanding this to be of an innovative nature with special economic interest to Spain and, for this purpose, with a favourable report issued by the central state administration.
- » Companies that require the incorporation in Spanish territory of foreign professionals to undertake an employment or professional relationship, whether in a managerial role or as highly qualified personnel, or graduates and postgraduates of universities and business schools of recognised prestige, stipulated by the Law itself in certain cases.
- » Non-resident foreigners, or foreigners residing legally in Spain, foreigners who wish to carry out training or research, development and innovation activities in public or private entities, stipulated by the Law itself in certain cases.
- » Non-resident foreigners who travel to Spain within the framework of an employment, professional or professional training relationship with a company or group of companies established in Spain or in another country.

It is possible to access more detailed information on the website of the Secretary General for Immigration and Emigration of the Ministry for Employment and Social Security, which contains the procedure to be followed to apply for each, together with the forms required.

Links of interest.

<http://extranjeros.empleo.gob.es/es/UnidadGrandesEmpresas/index.html><http://extranjeros.empleo.gob.es/es/InformacionInteres/InformacionProcedimientos/index.html>

07.

SOCIAL SECURITY

As a general rule, all employers, their workers, self-employed workers, members of production cooperatives, domestic employees, military personnel and civil servants residing and/or carrying out their roles in Spain must register in and are obliged to **contribute to the Spanish Social Security system**.

In those cases in which the system to which workers are subject is the general system, Social Security contributions are made in part by both the employer and the worker. Staff are classified into a series of work and professional categories to determine their Social Security contribution. Each category has maximum and minimum bases, which are generally reviewed annually.

Link of interest.

http://www.seg-social.es/Internet_1/Trabajadores/index.htm

CONTRIBUTION RATES APPLICABLE TO THE EMPLOYER AND THE EMPLOYEE UNDER THE GENERAL SOCIAL SECURITY SYSTEM

	General Rule	Fixed-term contracts
Employer	29.9%	31.1%
Employee	6.35%	6.4%

08.

OCCUPATIONAL RISK PREVENTION

In compliance with the provisions of Law 31/1995 of November 8, approving the LAW ON OCCUPATIONAL RISK PREVENTION LAW in Spain, employers must guarantee the health and safety of their workers, without limiting themselves to complying with legislation and remedying risk situations, which means, among other things, the obligation to carry out risk assessments, adopt measures in emergency situations and provide protective equipment.

This involves all employers having to have a prevention service to give advice and support in these tasks.

To this end, depending on the size of their company, the employer may appoint one or more workers to take care of this activity, carrying it out directly or making use of an outside prevention service.

Failure to comply with obligations in the area of occupational risk prevention may lead to administrative, labour, criminal and civil liability.



**MAIN ASPECTS
RELATING TO
ACCOUNTING
REGULATIONS**

LEGAL FRAMEWORK AND SCOPE OF APPLICATION

The basic regulations governing accounting law in Spain are closely linked to the country's commercial legislation and have been amended in recent years to conform to the accounting regulations of other EU countries and the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).





In Spain and the Basque Country there is a **General Chart of Accounts (GCA)** which applies to all companies, and also a specific Chart of Accounts for **small and medium-sized enterprises (SMEs)**, which simplifies the accounting treatment of transactions carried out with respect to the GCA.

The GCA for SMEs may be applied by those companies which meet at least two of the following requirements on the closing date of two consecutive financial year:

- a) The total of the asset items does not exceed 4,000,000 euros.
- b) The net amount of the annual turnover does not exceed 8,000,000 euros.
- c) The average number of workers employed during the year does not exceed 50.

Under no circumstances may companies in any of the following circumstances apply this **GCA for SMEs**:

- a) When they are considered public interest entities.
- b) When they are part of a group of companies that prepares or should prepare consolidated annual accounts.
- c) When their functional currency is not the euro.
- d) When they are financial institutions that raise funds from the public and assume obligations with respect to these funds and entities that assume the management of the foregoing.

Consolidated Annual Accounts (Royal Decree 1159/2010 of September 17)

Every parent company of a group of companies shall be obliged to prepare consolidated annual accounts for the group when, on the closing date of two consecutive financial years, all the companies in the group exceed two of the following limits:

Total Assets	I. Net Turnover	No. of workers
€11.4 million	€22.8 million	250

The rules for preparing consolidated annual accounts shall be mandatory for groups of companies, including subgroups, with a Spanish parent company.

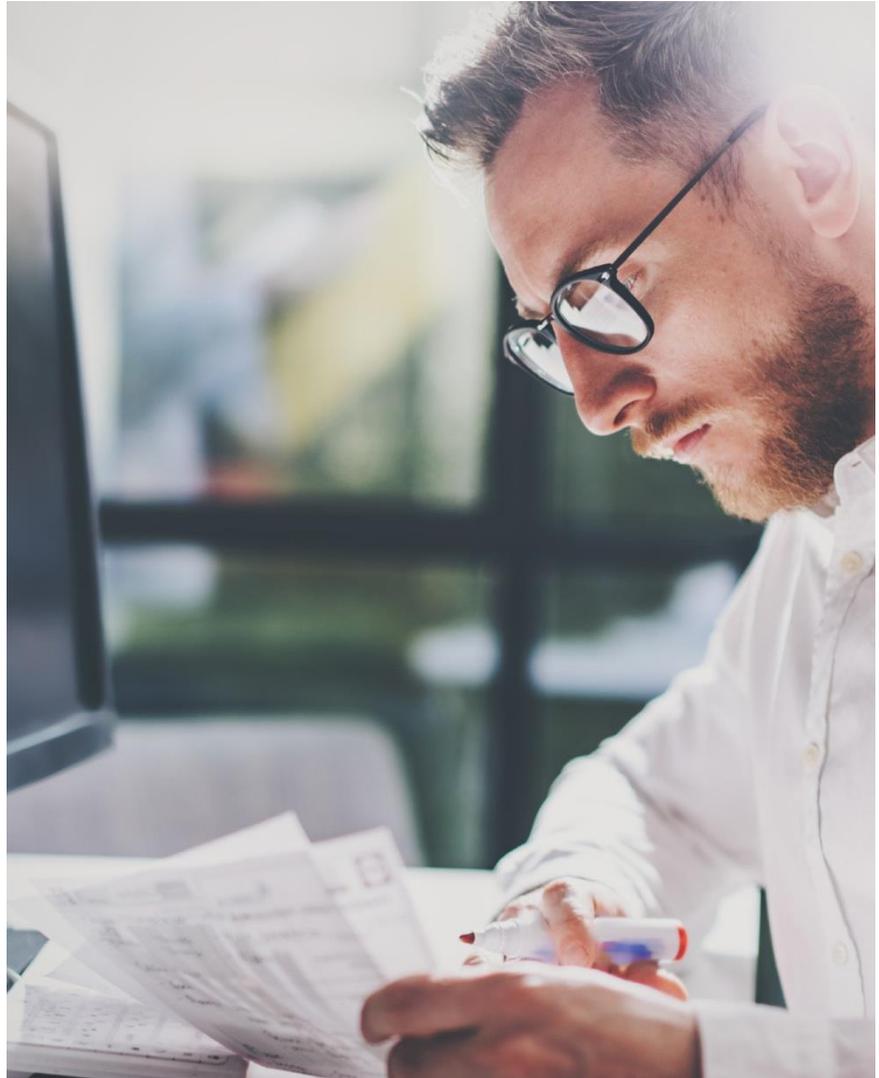
The application of all these accounting standards is mandatory for all companies, whatever their legal form, both individuals and corporate entities (natural persons or legal entities).



ACCOUNTING BOOKS AND REQUIREMENTS

In accordance with the regulations in force in the region, all entrepreneurs must keep an orderly accounting system, appropriate to the activity of their company, which makes it possible to monitor their transactions chronologically and prepare balance sheets and inventories periodically.

This means that companies must keep a journal in which to record the accounting details of their economic and financial transactions. As a consequence of recording these economic and financial transactions, they will obtain ledgers for inventories and balance and subsequently be able to prepare the entity's annual accounts. The frequency of these annual accounts shall be understood as the company's financial year, which shall, as a general rule, be twelve months, usually coinciding with the calendar year, although not necessarily.



All accounting books and records must be kept clearly, regardless of the procedure used, in date order, with no empty spaces, interpolations, crossings out or deletions. Abbreviations whose meaning is not precise under the Law or general commercial practice may not be used.

The accounting shall be done by expressing values **in euros**.

In accordance with the provisions of Article 30 of the Commercial Code, entrepreneurs shall keep books, correspondence, documentation and supporting documents that relate to their business, duly ordered, for **SIX YEARS**, starting from the last entry made in the books, except as established by general or special provisions.

Company directors are required to prepare their annual accounts within a maximum period of **three months** after the end of the financial year.

Trading companies are also obliged to keep a book of minutes, in which all the resolutions adopted by the general and extraordinary meetings and the other constituent bodies of the company will be recorded.

Legalisation of books.

The commercial legislation, in articles 25 to 41 of the Commercial Code, obliges all companies, whether they are companies, individual entrepreneurs or communities of goods, to legalise their registered office (which may not be the same as the address for tax purposes) and the accounting books in the Mercantile Register.

Entrepreneurs must submit the books to be kept by the Mercantile Register from the place where they have their registered office for legalisation, and, obligatorily by telematic means, within a maximum of four months following the closing date of the financial year. **In general, the deadline shall be April 30.**

» Accounting journal

» Inventory and Annual Accounts

- Trial Balance (Inventory) Balance Sheet
- Profit and Loss Account
- Annual Report
- Statement of Changes in Equity (*)
- Cash Flow Statement (*)
- (*) Voluntary for SMEs and Abridged Accounts.

Non-accounting books (minutes book, register of shareholders, register of nominal shares, etc.) must also be legalised by telematic means.



Filing the annual accounts

A company's annual accounts include: the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and the annual report. The statement of changes in equity and the statement of cash flows are voluntary in those cases in which the GCA for SMEs is applied or, in those cases in which, by applying the GCA, the company has opted to present its annual accounts in abridged form. In order to be able to present them in this abridged format, companies must comply with the same limits in terms of the amount of total asset items, annual turnover and average number of employees as for the SMEs mentioned above.

In accordance with the provisions of art. 279 of the revised text of the Law on Capital Companies, the company's directors shall submit the annual accounts for **filing at the Mercantile Register**, and, where appropriate, the consolidated accounts of the group, **within one month** of their approval by the Shareholders' Meeting. The directors shall also present the Management Report, if mandatory, and the auditor's report, when the company is obliged to audit its accounts.

AUDIT OBLIGATIONS

The obligation to audit accounts for companies is established in the aforementioned commercial regulations and in the legislation on auditing accounts, i.e. Law 22/2015 of July 20 on auditing accounts and its implementing regulations.

Firstly, and in accordance with the provisions of article 263 of Legislative Royal Decree 1/2010, of July 2, approving the revised text of the Law on Capital Companies, “the annual accounts and the management report must be audited by the auditors”, the exception to this obligation being “companies which meet at least two of the following requirements on the closing date of two consecutive financial year:

- a) The **total** of the **asset** items does not exceed **two million eight hundred and fifty thousand euros**.
- b) The **net amount of the annual turnover** does not exceed five million seven hundred thousand euros.
- c) The average number of workers employed during the year does not exceed fifty.

Companies will lose this faculty if they fail to meet two of the circumstances referred to in the previous paragraph for two consecutive financial years.

Companies may prepare abridged balance sheets and statements of changes in net assets in the first financial year after their incorporation, transformation or merger, if, at the close of said financial year, they meet at least two of the three circumstances expressed in the previous section.

In companies that do not need to be audited because they do not meet the limits defined in the preceding paragraphs, shareholders that represent at least five per cent of the share capital may apply to the company registrar responsible for the registered office of the company to appoint an auditor, at the expense of the company, to audit the annual accounts for a given financial year, provided that three months have not elapsed since the closing date of that financial year.

In addition to the provisions of the preceding paragraphs, the auditing of accounts is **mandatory** for entities in the cases mentioned below, regardless of their legal nature:

- a) Those that issue securities which can be traded on official secondary securities markets or multilateral trading systems.
- b) Those that issue publicly offered bonds.
- c) Those that habitually engage in financial intermediation and, in any event, credit institutions, investment service companies, companies governing official secondary markets, entities governing multilateral trading systems, the Central Securities Depository for the Register of Securities and Clearing & Settlement of Trades, central counterparties, the Sociedad de Bolsas, investment guarantee funds management companies and other financial institutions, including collective investment institutions, securitisation funds and their managers, registered in the corresponding Registers of the Bank of Spain and the Spanish National Securities Commission.
- d) Those whose corporate purpose is any activity subject to the revised text of the Law on the Management and Supervision of Private Insurance, approved by Royal Legislative Decree 6/2004 of October 29, within the limits established by regulation, as well as pension funds and their managing entities.
- e) Those that, being obliged to prepare annual accounts in accordance with the regulatory framework of financial reporting that applies to them, have received subsidies or public aid during a financial year for a cumulative amount in excess of 600,000 euros. They must audit the annual accounts for that financial year.
- f) Those that, being obliged to prepare annual accounts in accordance with the regulatory framework of financial reporting that applies to them, have entered into agreements with the public sector during a financial year for a cumulative amount in excess of 600,000 euros and this represents more than 50% of their turnover. They must audit the annual accounts for that financial year.

TABLE SUMMARISING THE COMPANY'S COMMERCIAL OBLIGATIONS

	Period since year end close	Comments
Preparation of the Annual Accounts	3 months	The preparation is carried out by the directors.
Legalisation of the accounting	4 months	At the Mercantile Register that presides over the registered office
Approval of the annual accounts by the Annual General Meeting	6 months	Ordinary Shareholders' Meeting
Presentation of Corporation Tax	6 months + 25 days	At the tax authorities in each region
Filing of: Annual accounts, certificate from the Ordinary Shareholders' Meeting and, where applicable, audit, etc.	1 month after the approval of the accounts by the Annual General Meeting	The Register can be publicly accessed for 6 years. Anyone may request a copy of this documentation.



TAXATION

ECONOMIC AGREEMENT AND COMPETENCY FRAMEWORK FOR THE **BASQUE COUNTRY / SPAIN**

The financial and tax relations of the Basque Country with the rest of Spain are regulated by Economic Agreement Law 12/2002.

This law establishes the regulatory, management and tax collecting autonomy of the three Basque provinces (Araba, Bizkaia and Gipuzkoa) in terms of the main taxes, where the rules in force in the rest of the common territory are established as supplementary.

The competent institutions of the **Basque provinces** can maintain, establish and regulate their tax system within their territory. In order to manage, inspect, review and collect the **agreed taxes**, the competent institutions in the Basque provinces have the same powers and prerogatives as those of the Spanish tax authorities.

The distribution of competences for the main taxes based on the Economic Agreement Law is as follows:

TAXES COVERED BY AUTONOMOUS REGULATIONS	TAXES COVERED BY STATE REGULATIONS
Corporation Tax	Non-resident income tax
Personal income tax	Value Added Tax
Property tax	
Inheritance tax	Special taxes
Capital transfer tax	
Local taxes	Electricity Production Tax

In order to achieve tax harmonisation throughout the Spanish territory, the Basque provinces must use the following criteria:

- » The **terminology and concepts** must be adapted to state regulations.
- » They must maintain an overall effective **tax burden** equivalent to that in the rest of Spain.
- » They must respect and guarantee the freedom of movement and right of establishment of persons and the free movement of goods, capital and services throughout the Spanish territory.
- » They must use the same **classification of activities** of an industrial, commercial, services, professional, agricultural, livestock and fishing nature as in the common territory.
- » Principle of collaboration: In exercising their functions, Spain and the Basque provinces must mutually facilitate as much data and background as they deem necessary.

CORPORATION TAX

01.

BASIC ASPECTS OF THE TAX

Tax agreed under autonomous regulations that levies the receipt of income from companies for each financial year (tax period).

Corporation Tax payers are entities (legal entities) resident in the Basque Country, with a registered office and effective address therein and, by remission of non-resident income tax,

also non-resident entities in Spanish territory that operate and obtain income in the Basque Country through a permanent establishment.

The income on which Corporation Tax is applied is calculated on the basis of the accounting profit for the tax period, adjusted for various tax adjustments established in the provincial regulations governing tax.

The **settlement structure** for this tax is as follows:

+/-	Accounting profit
+/-	Tax adjustments and allocations
=	Prior taxable base
-	Corrections relating to applying the result
-	Offsetting of tax losses
=	Taxable income
x	Tax rate
=	Gross tax payable
-	Deduction for double taxation
=	Tax liability
-	Deductions with quota limit
=	Effective rate
-	Withholding tax
-	Payment by instalments
=	Cash amount payable or refundable

02.

TAX RATES

	BASQUE COUNTRY	COMMON TERRITORY
Medium-sized and large companies	24%	25%
Small companies	20%	25%
Micro-companies (*) with tax offset	20% (*) 18%	25%
Start-ups	---	15% (1st year with taxable base + and the following)

Micro-companies

- a) Where the volume of transactions or total assets <= 2 million euros (€M);
- b) And where the average workforce < 10 employees

Small companies

- c) Where the volume of transactions or total assets <= €10 M;
- d) 2. And where the average workforce < 50 employees

Medium-sized companies

- e) Where the volume of transactions <= €50 M or total assets <= €43 M;
- f) And where the average workforce < 250 employees

Large companies

The remaining companies

The figures to be taken into account are those of the **prior tax period** and, where applicable, refer to all entities in the corporate group.



The tax standard establishes minimum tax rates to be applied on the taxable base (not on the accounting profit).

	MINIMUM TAXATION	
	With maintenance or creation of permanent employment	Without maintenance of permanent employment
Medium-sized and large companies	15%	17%
Small companies	13%	15%



03.

EFFECTIVE RATES

The application of different tax incentives regulated in the Provincial Law on Tax (reductions in taxable base and tax credits) may **significantly reduce the tax to be paid**, giving rise to effective rates well below the nominal rates described in the previous point.

REDUCTIONS IN TAXABLE AMOUNT	
Offsetting tax losses (Limit 50%/70% of the taxable amount)	100% of the tax loss generated
Investments in the capital of start-ups (Limit of 45% of the taxable amount)	60% of the investment
Capitalisation. Notional interest (no limit)	10% of the increase in reserves
Reserves for future losses (Limit up to 15%/10% of the profit)	100% of the provision
Patent Box	No integration 70% of net income generated
Exemption for reinvestment in fixed assets	No integration 100% of income generated

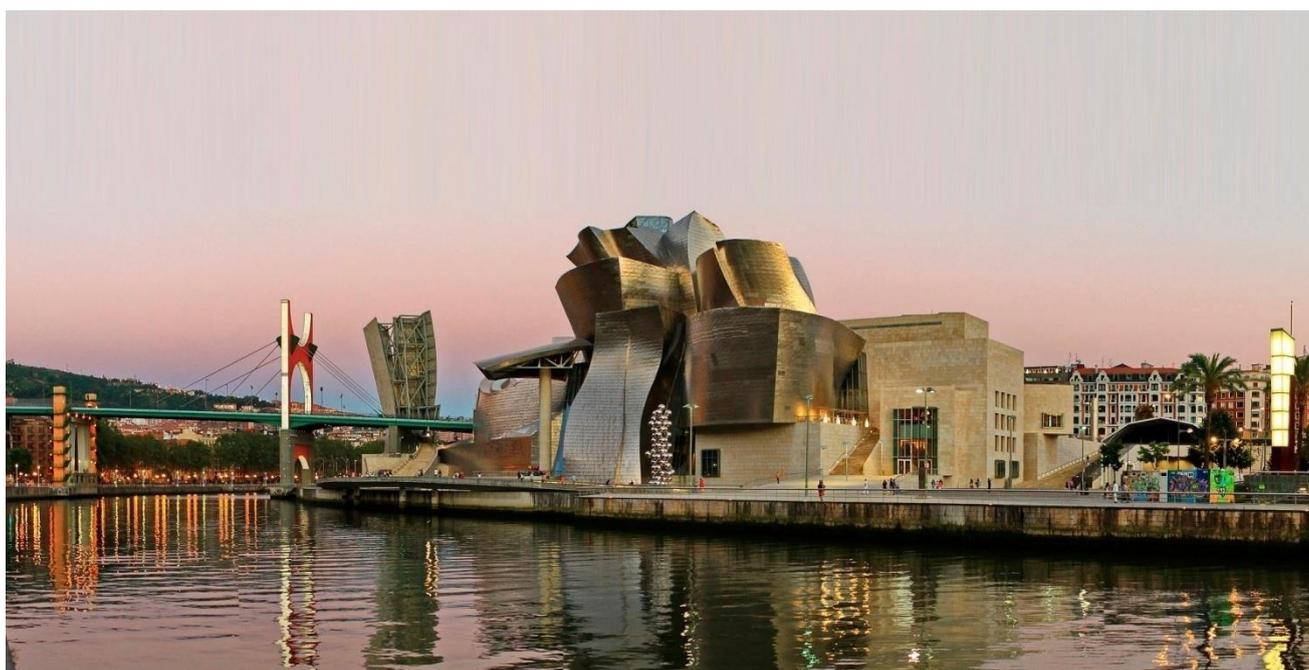
TAX CREDITS	
Applicable with a limit of 35% on the tax liability	
Investments in new non-current assets	10% / 5%
Creation of employment	€5,000 / €10,000
Environmental investments	30% / 15%
Investments in film productions and audiovisual series	30% (producer)
Book publishing	5%
Applicable with a limit of 70% on: tax liability - deductions of 35%	
Research and development activity	30% / 50% (+20% in certain cases)
Technological innovation activity	15% / 20%

In application of the above, for companies that maintain or create permanent employment, deductions with a limit of 35% on the tax liability and companies that carry out R&D&I activities, the effective taxation on the taxable base could reach **4.68% for medium-sized and large companies, 3.90% for small companies and 3.51% for micro-companies.**



Medium-sized / large companies

Result from the profit and loss account after adjustments	1,000.00
Reduction	-
Proof of taxable income	1,000.00
Offsetting prior year negative tax bases (tax loss carryforwards)	-
Taxable income / net tax base	1,000.00
Tax rate	24.00%
Gross tax payable	240.00
Deduction for domestic double taxation	-
Deduction for international double taxation	-
Gross tax payable	240.00
Deductions with a limit of 35%	84.00
Deductions with a limit of 70%	109.20
Effective tax payable	46.80
Effective rate	4.6800%





Small companies

Result from the profit and loss account after adjustments	1,000.00
Reduction	-
Proof of taxable income	1,000.00
Offsetting prior year negative tax bases (tax loss carryforwards)	-
Taxable income / net tax base	1,000.00
Tax rate	20.00%
Gross tax payable	200.00
Deduction for domestic double taxation	-
Deduction for international double taxation	-
Gross tax payable	200.00
Deductions with a limit of 35%	70.00
Deductions with a limit of 70%	91.00
Effective tax payable	39.00
Effective rate	3.9000%



Micro-companies

Result from the profit and loss account after adjustments	1,000.00
Micro-company reduction	-100.00
Proof of taxable income	900.00
Offsetting prior year negative tax bases (tax loss carryforwards)	-
Taxable income / net tax base	900.00
Tax rate	20.00%
Gross tax payable	180.00
Deduction for domestic double taxation	-
Deduction for international double taxation	-
Gross tax payable	180.00
Deductions with a limit of 35%	63.00
Deductions with a limit of 70%	81.90
Effective tax payable	35.10
Effective rate	3.5100%

04.

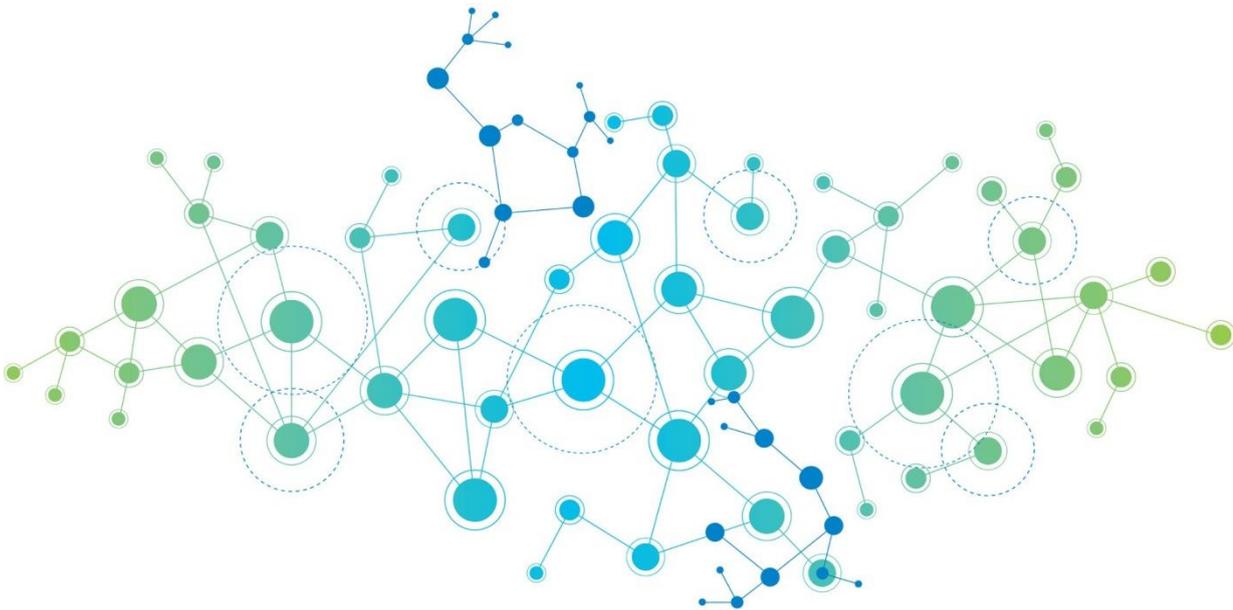
OFFSETTING OF NEGATIVE TAX BASES (TAX LOSSES)

If the tax base is negative, this amount may be offset against positive income from tax periods ending in the following 30 years.

The offsetting has a quantitative limit of **50%** of the taxable base prior to such offsetting, with this limit being **70%** for micro and small enterprises. This limitation does not apply:

- » On the amount of the income relating to acquittals or settlements from agreements with the taxpayer's creditors.
- » In the tax period in which the entity is wound up, unless it occurs in a restructuring operation to which the tax neutrality regime applies.

In certain cases, the offsetting of tax losses on the acquisition of companies that have been inactive is limited.



05.

AMORTISATION AND DEPRECIATION OF FIXED ASSETS

Amounts that relate to the effective depreciation and amortisation of tangible and intangible fixed assets and investments in property as a result of their operation, use, enjoyment or obsolescence and that are also recognised in the accounts are deductible.

Depreciation/amortisation is considered to be effective when the following maximum rates are applied:

Buildings for residential, office and commercial use and for services	3%
Buildings and halls for industrial use	5%
Installations	20%
Machinery for industrial use	20%
Machinery for other uses	15%
Vessels and aircraft	10%
Buses, lorries, vans and similar	20%
Passenger vehicles	20%
Moulds, models, dies and matrices	33.33%
Tools and equipment	33.33%
Furniture	15%
Computer equipment	33.33%
Videos for rent	50%
Other unspecified items	10%

The minimum depreciation rate is 6.66%, except in the case of properties, which is 2%, and vessels and aircraft, which is 4%.

There are special rules for assets used, for those that are used daily in more than one normal work shift, for improvements made to items and for those acquired under financial leases.

Declining-balance depreciation is also possible, except for buildings, furniture, fixtures and fittings that are second-hand.

There are certain cases in which items can be **depreciated freely**, without the need for an accounting record:

- » Tangible and intangible fixed assets, the unit value of which does not exceed 1,500 euros.
- » New tangible assets, except buildings and certain means of transport, acquired by **micro and small companies**
- » **Tangible and intangible assets**, excluding buildings, assigned to **research and development activities**. Buildings assigned to these activities can be depreciated on a straight-line basis over ten years.
- » Research and development expenses capitalised as intangible assets.
- » New tangible assets assigned directly to reducing and correcting the polluting impact of the company's activity (upon request).
- » Tangible and intangible assets directly related to cleaning up contaminated soils for those projects approved by official bodies of the Basque Country (upon request).

Medium-sized companies may depreciate new tangible assets, excluding buildings and certain means of transport, based on the coefficient resulting from multiplying the maximum depreciation coefficient set out in the table above by 1.5.

Micro-companies may opt to consider 25% of the net tax value of assets of that nature in each tax period, excluding the value of non-depreciable assets, as deductible under the concept of the combined depreciation of tangible and intangible assets and investment property, excluding certain means of transport.

Intangible assets

Intangible assets are amortised over their useful lives. If it is not possible to make a reliable estimate, amortisation is deductible with a maximum annual limit of 10%.

In the case of **goodwill**, accounting provisions for amortisation are not deductible, although 12.50% of the amount is deductible for tax purposes every year, without the need for an accounting record, provided that it has not been acquired from another group entity. If acquired from another group entity, any impairment losses on goodwill that can be credited are deductible.

Deductibility of Financial Goodwill

The tax amortisation of **financial goodwill (tax incentive only applicable in the Basque Country and not in the rest of Spain)** is also deductible, with requirements.

When shares are acquired (from entities that are not part of the group), the amount of the difference between the acquisition price of the holding and the equity of the investee at the acquisition date, in proportion to its holding, is allocated to the assets and rights of the investee and the part of the difference that would not have been allocated is deductible up to a **maximum annual limit of 12.50%**.



06.

VALUE ADJUSTMENTS: IMPAIRMENT LOSSES AND PROVISIONS

The impairment of loans due to the **insolvency of debtors** is only deductible if one of the following circumstances is met:

- a) Six months have elapsed since the maturity of the obligation.
- b) The debtor has been declared bankrupt.
- c) The debtor or, if the debtor is an entity, one of its directors or representatives, is prosecuted for the crime of asset stripping.
- d) The obligations have been claimed in court or they are the subject of a court case or arbitration proceedings, the recovery of which depends on the decision of the court or arbitration.

There are certain cases in which impairment is not deductible, such as, for example, impairment due or backed by public sector bodies, impairment that is duly guaranteed and backed, impairment that has been extended, impairment based on estimates of the risk of insolvency and impairment agreed between related parties, except in judicially declared insolvencies.

Micro, small and medium-sized companies may consider impairment for insolvency of **up to 1% of debtors' accounts** deductible at the end of the tax period, with some exclusion. This impairment loss balance may not exceed the previous limit.

Impairment of holdings in other entities: unlike the provisions for the common territory (the rest of Spain), the following amounts are deductible:

- a) In the case of holdings of less than 5% of the capital of unlisted entities or listed groups, the difference between shareholders' equity at the start and end of the financial year, in proportion to the holding.
- b) In the case of holdings of 5% or more (3% if listed), the difference between the acquisition price and the equity of the investee, adjusted for unrealised capital gains at the valuation date.

Also, unlike the provisions for the common territory (the rest of Spain), the impairment of tangible and intangible assets and property investments is deductible in the Basque Country.

Provisions are not deductible until the following are applied to their purpose:

- a) Those arising from implicit or tacit obligations.
- b) Those of a long-term nature for staff remuneration.
- c) Those relating to the costs of fulfilling contracts that exceed the economic benefits expected from them.
- d) Those arising from restructuring.
- e) Those relating to the risk of sales returns.
- f) Those for staff remuneration with payments based on equity instruments.
- g) Those relating to non-deductible expenses or losses.
- h) Those relating to environmental actions if they do not correspond to a plan formulated by the taxpayer and accepted by the tax authorities.
- i) Those for financial expenses arising from adjustments due to the restatement of the value of non-deductible provisions.

07.

LIMITATION ON THE DEDUCTIBILITY OF FINANCIAL EXPENSES

Net financial expenses (financial income from the transfer of capital) are deductible up to a limit of 30% of the operating profit for the year (EBITDA). In any event, an amount of 3 million euros is deductible.

Net financial expenses that have not been subject to deduction can be deducted in subsequent tax periods with no time limit, and unused excess operating profit (difference between net financial expenses and 30% of EBITDA) can be carried forward in the following five years, increasing the limit to be considered for deduction.



08.

NON-DEDUCTIBLE EXPENSES

The following expenses are not tax-deductible:

- a) Those that represent a remuneration of own funds
- b) Those arising from accounting for corporation tax. Those from such accounting does not count as income
- c) Fines, penalties and surcharges
- d) Losses from gambling
- e) Donations and gifts
- f) Allocations to provisions or internal social welfare funds
- g) Those for services with tax havens, unless proven to be otherwise
- h) Expenditure where limitations on cash payments apply
- i) Bribes
- j) Expenses with related parties that, as a result of a different tax classification in these, do not generate income or generate income that is exempt or subject to a nominal tax rate of less than 10%

The following are partially deductible:

- a) Expenses for public relations relating to restaurant services, hotel and catering services, travel and secondments are deductible at 50%, with a joint maximum limit of 5% of the volume of operations.
- b) Presents and other gifts, provided that the unit amount per recipient and tax period does not exceed 300 euros. Any excess is not deductible.
- c) Specific limits for expenditure relating to the acquisition, leasing, repair, maintenance, depreciation and any other expenditure relating to the use of motor vehicles and their trailers, mopeds and motorcycles.

09.

NON-INCLUSION IN THE TAX BASE OF CERTAIN INCOME

There are various cases of **non-inclusion of income** which are detailed below.

Elimination of double taxation

The aim of these measures is to avoid both legal and economic double taxation. The former occurs when the same taxpayer's income is taxed in two different states and the latter when the same income is taxed on two different taxpayers.

The **exemption method** is applied to avoid economic double taxation on dividends and capital gains and also for income obtained abroad through a permanent establishment.

Requirements for exemption:

- a) That the direct or indirect holding in the entity is at least 5% (3% if listed) and that it has been held uninterrupted during the previous year or, in the case of dividends, that it is held subsequently and this term is completed.
- b) That the investee is subject to, and not exempt from, Corporation Tax or a tax of an identical or similar nature to this tax that has levied at a nominal tax rate equal to or greater than 10%.
- c) That profits come from carrying out business activities, for which it is essential that at least 85% of the income relates to this type of income.

In the case of capital gains, the exemption is applicable with respect to financial years in which points (b) and (c) above are fulfilled.

The **deduction method** is used in certain cases of dividends and capital gains in which not all of the above requirements are met and also for taxes paid abroad, in which case the lower of the following amounts may be deducted:

- » Tax paid abroad
- » Tax payable if the income had been obtained in the Basque Country

Exemption for reinvestment of extraordinary profits

Tax incentive only in the Basque Country and not in the rest of Spain that consists of the total or partial **non-inclusion of the income obtained through the onerous transfer of tangible or intangible fixed assets** or property investments intended for business operations when they are reinvested.

For non-inclusion, the amount obtained in the aforementioned transfers must be **reinvested** in the same types of items, intended for business operations, within the **period** between the **year prior** to the date of delivery or making available of the transferred asset and the **following 3 years**.

Assets subject to reinvestment must **remain** in the taxpayer's equity in compliance with the established requirements, except for justified losses, for a **period of 5 years, or 3 years** in the case of movable property, from the time the reinvestment is made, unless its useful life is shorter.

Patent box

Tax incentive consisting of the (partial) non-inclusion in the taxable base of **70% of the net income generated** by the operation through the temporary assignment to third parties of the right to use or exploit the intellectual or industrial property of the entity that has been developed by the entity itself or through subcontracting unrelated third parties. If this is not the case, non-inclusion may also be applied at the same percentage, provided that the proportion of the expenditure incurred through such acquisition or subcontracting does not exceed 30% of the expenditure directly related to the development of intellectual or industrial property by the entity itself or through subcontracting unrelated third parties (proportional reduction if it exceeds it).

Only the assignment of patents, utility models, supplementary protection certificates of medicines and plant protection products, or registered advanced software obtained as a result of research and development projects **give the right** to this reduction.

Trademarks, literary, artistic or scientific works, including motion pictures, personal rights subject to assignment, such as image rights, rights of industrial, commercial or scientific equipment, rights of plans, secret formulas or procedures, rights on information relating to industrial, commercial or scientific experiences, design or computer program rights other than those referred to above, or any other right or asset other than those indicated do **not give this right**.

Corrections relating to applying the result

Three special reserves are regulated that make it possible to reduce the taxable base:

a) Offsetting to promote entrepreneurial capitalisation.

b) Special reserve for profit equalisation.

c) Special reserve for promoting entrepreneurship and strengthening the production activity.

» The purpose of offsetting to promote business capitalisation is to incentivise an increase in the equity of companies, establishing a reduction in the tax base of 10% of this increase (14% for micro and small companies).

» The purpose of the special reserve for profit equalisation is to earmark up to 10% (15% for micro and small enterprises) of the current distributable profits (with limitations) for offsetting future tax losses (period of 5 years).

» And the special reserve for promoting entrepreneurship and strengthening the production activity, consisting of a reduction in the tax base of 60% of the amount of the positive accounting result to be allocated to this special reserve (with limitations), is regulated to stimulate investments in the following items (with requirements):

a) The acquisition of new non-current assets.

b) The acquisition of assets in the field of sustainable development and the protection and improvement of the environment.

c) The acquisition of holdings in unlisted entities on the primary market that implement relevant business projects (new activities, products or markets, the expansion or consolidation of existing ones or the creation of stable jobs).

d) Equity holding in the initial stage of developing a new business project or in its development phase, of micro, small and medium-sized companies with high growth potential, being able to participate in their management (business angels).

10.

DEDUCTIONS TO INCENTIVISE CARRYING OUT SPECIFIC ACTIVITIES

- a) **Deduction for investments in new non-current assets.** Up to 10% of investments made, with a minimum and requirements to be met.
- b) **Deduction for research and development activities.** Also with requirements, from 30% to 70% of the expenses incurred in these activities.
- c) **Deduction for technological innovation activities.** 15% or 20% of expenditure, depending on the type of activity carried out.
- d) There is also the possibility of transferring deductions to taxpayers who finance research and development or technological innovation projects.
- e) **Deduction for investments and expenditure linked to projects aimed at sustainable development, conservation and improvement of the environment** and more efficient use of energy sources. 15% or 30% of expenditure and/or investments made, depending on their nature.
- f) **Deduction for the creation of permanent employment.** In general, up to 5,000 euros per employee. Up to 10,000 euros for groups with particular difficulties in entering the labour market.
- g) Other deductions for promoting culture: producing films and series (30%) and publishing books (5%).

The above deductions can be applied **with a limit of 35%** of the tax liability, except for **research and development and technological innovation**, which are applied **with a limit of 70%** of the tax liability (80.50% if combined with the previous one). The **period** for applying them is **30 years**.

There is a minimum taxation depending on the fiscal size of the company, which also limits the application of previous deductions (except for research and development and technological innovation).

11.

WITHHOLDING TAX AND PAYMENTS ON ACCOUNT

Certain earnings obtained by taxpayers are subject to **withholding** in the form of a payment on account of corporation tax, with a general withholding percentage of 19%.

Moreover, medium-sized and large companies are obliged to make a **payment on account** for corporation tax for an amount of **5%** of the taxable base (after offsetting tax losses) for the last tax period for which the self-assessment period is due on October 1 of each year, deducting thereafter the withholdings and payments on account made on the taxpayer's income corresponding to that same tax period.

This payment on account will reduce the effective corporation tax rate for the year.

PERSONAL INCOME TAX

01.

OVERVIEW

Tax agreed under autonomous regulations on the income of natural persons who usually reside in the Basque Country.

Taxpayers are taxed for obtaining income regardless of where it was made and regardless of the payer's residence, i.e. the worldwide income is taxed.

This tax is on the economic capacity of the taxpayer, for which a **personal and family minimum** is set that must be taken into account when calculating the full tax liability.

The family unit may choose to pay tax jointly or each of its members may pay separately.

02.

COMPONENTS OF THE TAXPAYER'S INCOME

- a) Earnings from work
- b) Earnings from economic activities
- c) Earnings from movable and immovable assets
- d) Capital gains and losses
- e) Other allocations of income

For the purposes of determining the taxable base and calculating the tax, income will be classified in general and from savings. Income from savings will be made up of dividends and interest, among others, unless they come from related entities and capital gains.

03.

REDUCTIONS IN THE TAX BASE

- a) Inputs and contributions to social security systems

The limits on reductions for inputs and contributions to social security systems will be as follows:

- » €5,000 per year for the sum of contributions made to social security systems
- » €8,000 per year for the sum of contributions made
- » €12,000 per year for the sum of inputs and contributions, respecting the limits set for each of them

- b) Judicially fixed compensatory allowance and annual child support
- c) Joint taxation.



04.

APPLICABLE RATES

General Tax Base

General tax base up to (euros)	Gross tax payable	Remaining tax base up to (euros)	Applicable rate %
0.00	0.00	16,030.00	23.00%
16,030.00	3,686.90	16,030.00	28.00%
32,060.00	8,175.30	16,030.00	35.00%
48,090.00	13,785.80	20,600.00	40.00%
68,690.00	22,025.80	26,460.00	45.00%
95,150.00	33,932.80	31,700.00	46.00%
126,850.00	48,514.80	58,100.00	47.00%
184,950.00	75,821.80	From there on	49.00%

Tax Base On Savings

Part of tax base on savings (euros)	Applicable rate %
Up to 2,500.00	20%
From 2,500.01 up to 10,000.00	21%
From 10,000.01 up to 15,000.00	22%
From 15,000.01 up to 30,000.00	23%
From 30,000.01 on	25%

05.

TAX DEDUCTIONS

» Family and personal deductions

» Deduction for contributions made to the protected assets of a disabled person

» Deductions for main residence

a) Rental

- 20% of the amounts paid in the tax period, with a limit of €1,600
- 25% of the amounts paid in the tax period, with a limit of €2,000 in the case of a large family
- 25% of the amounts paid in the tax period, with a limit of €2,400 in the case of being under the age of 30

including the expenses incurred which were charged to it. Likewise, they will be able to apply a deduction of 18% of the interest paid on the loan received for said purchase.

b) Acquisition of a house

The deduction percentage will be 18% of the amounts invested in the acquisition of a house,

The maximum annual deduction will be €1,530, although if the taxpayer is under the age of 30 or has a large family, the deduction will be 23% and the maximum deductible amount will be €1,955.

» Deductions for promoting economic activities

a) Deductions for investments and other activities

Taxpayers may apply the deductions to incentivise investments in new fixed assets and carrying out activities provided for in the Provincial Regulation on Corporation Tax, with equal percentages and deduction limits.

Deductions not applied due to insufficient tax payable may be applied by respecting the same limits on the self-assessments for the thirty immediate and successive years.

b) Deduction for workers' holdings in the company

Under certain requirements, taxpayers may apply a deduction of between 10% and 20%, depending on the province, of the amounts intended for the acquisition or subscription of shares or holdings in the entity or in any of the group of companies in which they provide their services as workers.

c) Deduction for investment in new, newly-created or innovative companies

Between 10% and 20% may be deducted from the amounts paid for the subscription of shares or holdings in new or newly-created companies. This percentage will be between 20% and 30% in the case of innovative companies.

The maximum deduction base will be between €50,000 and €100,000 and will be made up of the acquisition value of the shares or holdings and may not exceed between 10% and 15% of the net tax base.

» Donations

» Deduction for international double taxation

When there are earnings or capital gains obtained and taxed abroad, the lesser of the following amounts will be deducted:

- Amount paid abroad for a tax of an identical or similar nature to this tax
- The result of applying the average general or savings tax rate on income obtained abroad.

» Deduction for dues paid to unions and political parties.

06.

TAX RESIDENCY

It is understood that an individual has their main residence in the Basque Country when they reside here for **more than 183 days during the calendar year**. Depending on where the greatest number of days are spent, the income tax return will be filed in one of the provinces that make up the Basque Country.

Temporary absences shall be calculated to determine the period of stay, unless the tax residency is shown to be in another country.

In the absence of proof to the contrary, an individual will be considered

to reside in the Basque Country when their **main residence** is here.

Even if their main residence is not in the Basque Country or they have several or it is impossible to determine their residence for this reason, they will be considered to be residents in the Basque Country when the **main hub or base of their business or professional activities or their economic interests are located there**.

07. REGIME FOR SECONDED / IMPATRIATE WORKERS

Special Regime for **Seconded Workers**

There is an exemption of up to **60,100 euros per year** for income received for work effectively carried out abroad, if certain requirements are met:

1. That such work is carried out for a company or entity not resident in Spain or a permanent establishment located abroad.
2. That a tax of an identical or similar nature to that of this tax is applied in the territory in which the work is carried out and that it is not a country or territory considered to be a tax haven.

Special Regime for **Inpatriate Workers**

In order to attract and recruit talent, the regulations establish a system of exemption for individuals who acquire their tax residence in the Basque Country, **during their first five years**, as a result of their secondment to that territory, provided that certain requirements are met:

- » That the secondment takes place to carry out **particularly skilled work** that is directly and mainly related to R&D, scientific, technical or financial activities, with the requirements established in the regulations.
- » That they have not been resident in Spain during the previous 5 years
- » That the secondment occurs as a result of an employment contract with a person or entity in Spain
- » That the work is effectively carried out in Spain

- » That such work is carried out for a company or entity resident in Spain or a permanent establishment of a non-resident entity

Based on this regime:

- » **15% of the income** derived from the employment relationship (work income) **shall be exempt**, and certain expenses incurred as a consequence of the secondment to the Basque Country shall also be considered deductible.
- » Income from assets abroad shall be exempt, provided that they have been taxed by a tax of an identical or similar nature and it is not a tax haven.

NON-RESIDENT INCOME TAX (NRIT)

Tax agreed under state regulations that taxes income obtained in Spanish territory by non-resident entities or individuals.

The tax regulation distinguishes between income obtained without or through permanent establishment:

01.

NON-RESIDENT INCOME OBTAINED THROUGH PERMANENT ESTABLISHMENT:

It is understood that the non-resident individual or entity carries out operations in Spanish territory through a permanent establishment, when:

workplaces of any kind in the Spanish territory on a continuous or habitual basis, in which it carries out all or part of its activity (management headquarters, branch offices, construction work, etc.).

a) For any reason, the entity has facilities or

b) It acts in Spain through an **authorised agent** to contract, in the name and on behalf of the non-resident person or entity, that habitually exercises these powers.

It is important to note that permanent establishments do not have a separate legal personality from their parent company.

Permanent establishments are subject to the same formal, registration and accounting obligations as resident entities.

In general, they determine their income as if they were a resident company, applying the rules for determining the base, tax rate and deductions established for provincial Corporation Tax.

The tax rate will be the same as that applied to resident companies (24%/20%).

» Deductibility of payments made for management and general administrative expenses.

There are certain characteristics that should be highlighted:

Special rules are established to determine the tax base for certain cases:

» Non-deductibility of payments made to the parent company, royalties, interest, fees, technical assistance or assignment and use of assets.

» Permanent establishments whose activity consists of construction, installation or assembly work with a duration of over six months, or temporary or seasonal economic operations, or natural resource exploration activities.

» If the permanent establishment does not complete a business cycle that leads to income in Spain and the business cycle is completed by a non-resident entity.

02.

NON-RESIDENT INCOME OBTAINED WITHOUT A PERMANENT ESTABLISHMENT:

Taxpayers who obtain income without a permanent establishment are taxed separately for each total or partial accrual of income obtained in Spanish territory.

Income obtained in Spanish territory without a permanent establishment includes:

- » Income from economic activities or operations carried out in Spanish territory.
- » Earnings from services used in Spanish territory (i.e. carrying out studies, projects, providing technical assistance or management support).
- » Earnings from work when they are derived directly or indirectly from a personal activity carried out in Spanish territory.
- » Interest, royalties or other capital gains paid by persons or entities resident in Spanish territory or by permanent establishments located therein.
- » Earnings from property located in Spain or from rights related to this property.
- » Capital gains derived from movable or immovable property located in Spanish territory or from securities issued by resident entities.

Notwithstanding the foregoing, among others, the rule provides for certain **tax exemptions**:

- » Interest and other income derived from the transfer to third parties of own capital, as well as capital gains derived from movable property, obtained without a permanent establishment, obtained by residents of the European Union.
- » Dividends distributed by a resident subsidiary to its parent company resident in the European Union when certain requirements are met, such as having a 5% holding or an acquisition value of the holding of more than 20 million euros for one year.
- » Royalties paid by a resident company to a company resident in another EU member state when a number of requirements are met.

Tax rates for non-residents without a permanent establishment are lower than those for resident individuals and entities.

INCOME OBTAINED	% RATE
General:	24 (*)
Dividends	19
Interest	
Transfer or repayment of securities representing the capital or fund equity	
Special cases:	
» Earnings from reinsurance operations	1.5
» Earnings from air or maritime shipping entities	4
» Capital gains	19
» Seasonal foreign workers	2

(*) The rate is 19% for taxpayers resident in another EU member state

03.

OTHER QUESTIONS OF INTEREST RELATED TO NON-RESIDENT INCOME TAX

- » **Agreements to avoid double taxation:** Bilateral agreements signed by Spain with other countries to avoid double taxation and facilitate the exchange of information are applied as a **matter of priority** with respect to the internal regulations of non-resident income tax.

Spain has signed bilateral agreements with more than 85 countries, which regulate the maximum tax rates on income generated that the signatory countries must respect. Therefore, it will be necessary to agree to the provisions of these agreements, which take precedence over the internal regulation when determining the applicable taxation.

- » **Tax representative:** Non-resident taxpayers will, in certain cases, be obliged to appoint a representative in Spain (an individual or legal entity resident in Spain).

Representatives of permanent establishments are considered to be those who appear as such in the Mercantile Register or, failing that, those who have the power to contract on their behalf.

Tax representatives have a very important degree of responsibility, insofar as they are **jointly and severally liable** for the income from the debts of non-resident taxpayers.



OTHER TAXES

01.

VALUE ADDED TAX (VAT)

Tax agreed under state regulations that is harmonised at a European level. It is a tax borne by the end consumer and, therefore, does not entail a cost for entrepreneurs or professionals, as input tax can be deducted from output tax.

The general tax rate is 21%.

There is also a **reduced rate of 10%** applicable to certain supplies of goods and the provision of services, such as most food, water, housing, passenger transport, etc.

In addition, there is a **super-reduced rate of 4%** applicable to supplies of flour, milk, cheese, eggs, fruits and vegetables; books, newspapers and magazines; medicines for human use; certain social housing;

A mechanism has been established to refund VAT paid in Spain by entities resident in an EU member country or with which Spain has signed a reciprocity agreement. The deadline for applying for said refund is September 30 of the following year.

03.

INHERITANCE TAX (ISYD)

Tax agreed under autonomous regulations levied on the lucrative transfer of all types of goods and rights between private individuals.

This tax is levied on heirs, beneficiaries and recipients resident in Spain for all the assets they receive, whether located in Spain or abroad.

In the case of non-resident beneficiaries, these will be subject to this tax for a liability based on Spanish-source income and must be taxed in Spain on the acquisition of goods and rights, whatever their nature, that were located, could be exercised or should be completed or fulfilled in Spanish territory.

The taxable base is the net value of the assets and rights acquired.

The **Basque Country** has regulated **significant reductions (95%)** for transfers of family businesses, main residences and according to the degree of kinship (parents to children), **setting very reduced rates for direct relatives (1.5%)**.

All of this has created a very advantageous Inheritance Tax compared to the rest of Spain.

02.

TRANSFER TAX AND STAMP DUTY

Tax agreed under autonomous regulations, therefore having full regulatory capacity in the Basque Country, levied on inter vivos and onerous transfers of all kinds of goods and rights, corporate transactions and documented legal acts (public deeds).

There are a number of exemptions with respect to corporate operations, meaning that corporate restructuring operations, the establishment of companies, increases in capital, contributions from shareholders that are not considered to be increases in capital, among others, are not taxed.

A general rate of 7% is set for onerous transfers, with a reduced rate of 4% in the case of properties used for housing (with the latter being 2.5% under certain circumstances).

A tax rate of 1% is set for non-exempt corporate transactions (reduction in capital, liquidation of companies, etc.).

04.

PROPERTY TAX

Property tax is a tax agreed under autonomous regulations levied on the equity of individual taxpayers.

In general, these taxpayers will be:

- » Resident individuals for all their assets worldwide.
- » Non-resident individuals for the assets they own in the Basque Country.

Equity is understood to be all assets and rights in their name, once reduced by the charges and encumbrances that bring down their value and their debts at December 31.

An exemption limit below which this tax is not paid has been set at 700,000 euros for Gipuzkoa and 800,000 euros for Araba and Bizkaia.

In addition, specific exemptions have been set for certain assets, which include: main residence, assets and rights required to carry out an economic activity and, under certain requirements, equity holdings in companies.

06.

SPECIAL TAXES

In the Basque Country, as in the rest of Spain, there are various special taxes that emanate from European regulations, such as:

- » special taxes on consumption (alcohol and alcoholic drinks, beer, hydrocarbons and the tobacco industry),
- » special tax on certain means of transport,
- » tax on electricity, which is levied on the consumption of electricity.

05.

LOCAL TAXES

The regulation of the laws on local tax authorities is the responsibility of the **competent institutions** in the three provinces, under the terms established in the Economic Agreement Law.

The local tax system in the provinces basically matches that of the rest of Spain.

Among the existing local taxes, it is worth mentioning:

- » **Property Tax (IBI):** Tax levied by local councils, the taxable event is made up of the ownership of urban and rural properties and properties with special characteristics, with any of the following rights: property; right in rem to the usufruct or over the buildings subject; administrative concession.

The taxable base of the tax is made up of the "cadastral value" of properties and it is charged annually.
- » **Business Tax (IAE):** A tax levied by town councils: the taxable event of the tax consists **merely of engaging in economic activities** in Spanish territory, regardless of whether or not they are carried out in a specific location. It is annual, exempt for the first two years and is only paid starting from a turnover of 1 million euros (Araba and Gipuzkoa) or 2 million euros (Bizkaia).
- » **Tax on Constructions, Installations and Works (ICIO):** A tax levied by town councils, levied on carrying out any construction, installation or work for which obtaining the corresponding building or town planning licence is required.
- » **Tax on the Increase in Value of Urban Land (IIVTNU):** Tax levied by the town councils on the increase in value experienced by land of an urban nature disclosed as a result of a transfer of ownership or any right in rem to the limited enjoyment of ownership over them.

OTHER ISSUES

01.

TRANSFER PRICES

In general, the income tax regulations in the three provinces establish the obligation not only to **value** the transactions carried out between the companies forming part of a Group **on the market**, but also the obligation to **document** them, in compliance with certain conditions.

Such documentation obligations must be met in order to prepare the corresponding Transfer Pricing reports, which must be made available to the tax administration, which may request them at any time.

There is also an obligation to report the breakdown and quantification of these related-party transactions in the annual accounts, which must be filed with the Mercantile Register and in the corporation tax of all the group companies.

03.

TAX CONSOLIDATION REGIME

Companies with tax residence in the Basque Country that belong to the same mercantile group may choose to **pay** corporation tax **jointly**. As a requirement, the parent company of the group must have a direct or indirect holding of at least 75% of the share capital (70% if listed) in those companies on the first day of the tax period in which this special tax regime applies.

02.

CUSTOMS DUTIES

Since 1993, with the creation of the European single market, borders and therefore customs duties within Europe have disappeared. **There is free movement of goods, capital and people within Europe.**

In general, the customs duties applied in the Basque Country and the rest of Spain are customs duties paid on imports, when goods are cleared through customs **from non-European third countries**.

There are lower customs duties for storage or warehousing rights and the sale of abandoned goods.

In most cases, the importers are obliged to pay the customs duties payable.

Customs regulations are harmonised throughout Europe, with the **Goods Classification System and the European Economic Community ("EEC") tariff (TARIC)**.

The parent company of a tax consolidation group is allowed to be non-resident in Spanish territory. Thus, although the parent company will not form part of the group, the consolidation of subsidiaries (at least 75%, or 70% in the case of listed companies) resident in Spain is permitted. Thereby, it will be possible for several entities subject to Basque provincial legislation under the common control of a non-resident company to form a tax group.

04.

INTERNATIONAL AGREEMENTS AND TREATIES TO AVOID DOUBLE TAXATION

Spain has signed agreements to avoid double taxation with 85 European and non-European countries, following the OECD Model Tax Convention. The fundamental objective of these agreements is to avoid double taxation on income generated in these countries and to avoid tax fraud.

COU NTRY		
Albania	Croatia	Italy
Germany	Cuba	Jamaica
Andorra	Ecuador	Japan
Saudi Arabia	Egypt	Kazakhstan
Algeria	United Arab Emirates	Kuwait
Argentina	Slovakia	Latvia
Armenia	Slovenia	Lithuania
Australia	United States	Luxembourg
Austria	Estonia	Macedonia
Barbados	The Philippines	Malaysia
Belgium	Finland	Malta
Bolivia	France	Morocco
Bosnia and Herzegovina	Georgia	Mexico
Brazil	Greece	Moldavia
Bulgaria	The Netherlands	Nigeria
Canada	Hungary	Norway
Qatar	India	New Zealand
Chile	Indonesia	Oman
China	Iran	Pakistan
Cyprus	Ireland	Panama
Colombia	Iceland	Poland
South Korea	Israel	Portugal
Costa Rica	Serbia	United Kingdom
Czech Republic	South Africa	Turkey
Dominican Republic	Sweden	States of the former USSR
Romania	Switzerland	Uruguay
Russia	Thailand	Uzbekistan
El Salvador	Trinidad and Tobago	Venezuela
Senegal	Tunisia	Vietnam
Singapore		



SUPPORT

PRESENTATION

Basque public institutions annually allocate significant funds to finance projects of interest that are carried out by local and foreign companies with work centres in the Basque Country.

This financial support, which is compatible with other programmes and funds from Spain and the EU, is aimed at incentivising technological and sustainable investments with a high impact on employment, to support R&D&I actions, to promote the internationalisation of companies and to promote entrepreneurial activity as a driver of change and innovation in organisations. It is also focused on smart specialisation in three strategic areas: Biosciences for Health, Energy and Advanced Manufacturing 4.0.

The following is a list of some of the main aid programmes awarded and called by the Basque Government, SPRI, the Basque Provincial Councils and the General Administration of the Spanish State, as well as the venture capital funds that serve as a stimulus to invest in and develop companies in the Basque Country.



Investment aid

GAUZATU INDUSTRIA

SPRI Basque Competitiveness Agency



Beneficiaries

Basque technology-based or innovative industrial SMEs.



Objective

Investment projects in fixed assets accompanied by maintaining or creating jobs.



Aid type

Interest-free, up to €1,500,000

INDARTU

SPRI Basque Competitiveness Agency



Beneficiaries

Industrial companies or groups of companies.



Objective

Investments in production made in disadvantaged areas.



Aid type

Subsidy of 10% of the investment, up to €3,000,000

STRENGTHENING INDUSTRIAL COMPETITIVENESS

Ministry of Economy, Industry and Competitiveness



Beneficiaries

Companies that carry out a production activity of an industrial nature.



Objective

Aid for industrial investment, promoting projects in companies that incorporate advanced technologies into their products and processes and create skilled employment.



Aid type

Loan of 75% of the investment, at an interest of 1.647%. Max. 5 x own funds. 10 years of repayments with a 3-year grace period. Guarantees between 10% and 70%.

GLOBAL INNOVATION LINE

CDTI Centre for the Development of Industrial Technology



Beneficiaries

SMEs and mid-caps



Objective

Investment projects in innovation and the incorporation of technology for the growth and internationalisation of companies in facilities located both in Spain and abroad.



Aid type

Subsidised loan (approx. 2%) of up to 75% for 7 years, limit €4,000,000. 50% guarantees.

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DFB Bizkaia Provincial Council



Beneficiaries

SMEs with a production centre in Bizkaia with at least 10 employees.



Objective

To support projects with great impact potential, encompassing investments, innovation and internationalisation. Minimum budget of €500,000.



Aid type

Subsidies between 10% and 50%, limit €500,000.

INDUSTRIAL ENERGY EFFICIENCY PROGRAMME

EVE Basque Energy Agency



Beneficiaries

Companies with facilities in the Basque Country, of any size and in any sector.



Objective

Aid to implement auxiliary equipment and improve energy facilities in order to increase the energy efficiency of plants located in the Basque Country.



Aid type

Subsidy of 20%, up to €100,000

AID FOR ENERGY EFFICIENCY ACTIONS IN THE INDUSTRIAL SECTOR

IDAE Institute for the Diversification and Saving of Energy



Beneficiaries

SMEs and large companies.



Objective

Aid for energy efficiency in industry. To incentivise and promote the implementation of actions in the industrial sector that reduce carbon dioxide emissions by improving energy efficiency.



Aid type

Subsidy up to 30%, limit €1,200,000.

AID FOR INVESTMENTS IN AGRI-FOOD INDUSTRIES

Basque Government



Beneficiaries

Agri-food companies with a production establishment in the Basque Country



Objective

Aid for investing in the processing and marketing of agricultural and food products and fish derivatives and aquaculture products.



Aid type

Subsidy up to 40% of the total investment.

Aid for R&D

HAZITEK COMPETITIVO (COMPETITIVE HAZITEK)

SPRI Basque Competitiveness Agency



Beneficiaries

Companies of any size and in any sector, with at least one production activity in the Basque Country.



Objective

R&D projects aimed at developing new products, individually or in collaboration or via the launch of new science and technology-based companies. Minimum budget of €100,000 for individual projects and €50,000 for collaboration projects.



Aid type

15%-40% of eligible costs, limit of €250,000.

HAZITEK ESTRATEGICO (STRATEGIC HAZITEK)

SPRI Basque Competitiveness Agency



Beneficiaries

Companies of any size and in any sector, with at least one production activity in the Basque Country.



Objective

Industrial Research and Experimental Development Projects in strategic sectors: These projects must have a minimum budget of €4,000,000 and a maximum duration of 3 years.



Aid type

Strategic projects: between 25%-50% of the eligible costs in for research projects and 20%-25% for experimental development projects.

COLLABORATION CHALLENGES

Ministry of Economy, Industry and Competitiveness



Beneficiaries

Groupings between companies and research organisations with at least two participants: 1 public or private research organisation + 1 company



Objective

Support for projects in collaborations between companies and research bodies to promote the development of new technologies, the business application of new ideas and techniques, and to contribute to the creation of new products and services.



Aid type

Loans at the Euribor interest rate for up to 95% of the budget depending on the company type. 10 years of repayments with a 3-year grace period.

CDTI R&D Projects

CDTI Centre for the Development of Industrial Technology



Beneficiaries

Companies of any size and in any sector.



Objective

To carry out R&D projects of an applied nature to create and significantly improve a productive process, product or service presented by a single company or by a business group. Such projects may include both industrial research and experimental development activities.



Aid type

Loans at the Euribor interest rate for 85% of the total approved budget, with a non-refundable tranche (NRT) of 20%-33% of the aid.

INNOGLOBAL

CDTI Centre for the Development of Industrial Technology



Beneficiaries

Companies of any size and in any sector.



Objective

Aid for market-oriented international business projects presented by a single Spanish company within an international consortium. Such projects may include both industrial research and experimental development activities.



Aid type

Subsidies of 30-50%. Up to €400.000

Support for business start-ups

EKINTZAILE PHASE I

Basque Government



Beneficiaries

Individuals, micro-companies, SMEs and large industrial companies or related services.



Objective

Support for evolving a business idea in a Business and Innovation Centre. In the event that the idea becomes a business, it can access subsidised loans.



Aid type

Maximum €60,000 non-refundable grant and up to 100% of eligible expenses

EKINTZAILE PHASE II

Basque Government



Beneficiaries

Newly-created companies (less than 1 year) of an innovative nature, with an industrial or industry-related service activity.



Objective

Long-term financing of active investments for newly-created small and medium-sized enterprises under the Ekintzaile Programme.



Aid type

Loan of up to €180,000, Euribor interest + 1.25%, 7 years + 2-year grace period. No guaranties.

NEOTEC

CDTI Centre for the Development of Industrial Technology



Beneficiaries

Small innovative company that develops its own technology. It must be between 6 months and 3 years old at the time of any application, with a minimum share capital of €20,000 and R&D expenses representing at least 10% of its operating costs.



Objective

Start-up of new business projects that require the use of technologies or knowledge developed from the research activity, in which the business strategy is based on the development of technology.



Aid type

Subsidy of up to 70% of the budget for the action, with a maximum subsidy amount of €250,000 euros

VENTURE CAPITAL FUNDS IN THE **BASQUE COUNTRY**

Basque VCF



Beneficiaries

Industrial projects or industry-related services, with growth potential. Foreign companies looking for a local partner to support them in their implementation.



Objective

Venture Capital Fund (VCF) to invest in the capital of companies that are at any stage of development (23 million euros) and to promote entrepreneurship (5 million euros).



Aid type

CREATED in 2014. Closed fund. Time limit of 25 years. A maximum of €400,000 may be provided from the fund, in a combination of equity and/or convertible loans.

SEED Gipuzkoa



Beneficiaries

Consolidated companies or under development.



Objective

Investments in the capital of newly-created technology-based and innovative companies in the province of Gipuzkoa.



Aid type

Created in 2007. Venture Capital Company. Closed fund. Time limit of 15 years (2002)

Suztapen VCF



Beneficiaries

Consolidated companies or under development.



Objective

Venture Capital Fund to invest in the capital of consolidated companies or those under development.



Aid type

Created in 2001. Venture Capital Fund. Closed fund. Time limit of 17 years (2018).

EZTEN VCF



Beneficiaries

Companies in their initial phase.



Objective

Investments in the capital of companies in their initial phase, approximately during their first three years.



Aid type

Created in 1986, Closed fund with no time limit.

SEED CAPITAL-FUND 1

FUND 1



Beneficiaries

New or newly-created companies.
With their registered office and a production centre in Bizkaia. Minimum share capital of €90,000.
With the potential for growth and job creation.



Objective

To promote business initiatives of an innovative nature.



Aid type

Aid type. Up to €450,000 in capital and loans.

FUND BI



Beneficiaries

Consolidated companies with a strong innovative bias, preferably technology-based.



Objective

Support for consolidating business initiatives of an innovative nature.



Aid type

Aid type. Up to €1,000,000 in capital and loans.





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