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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

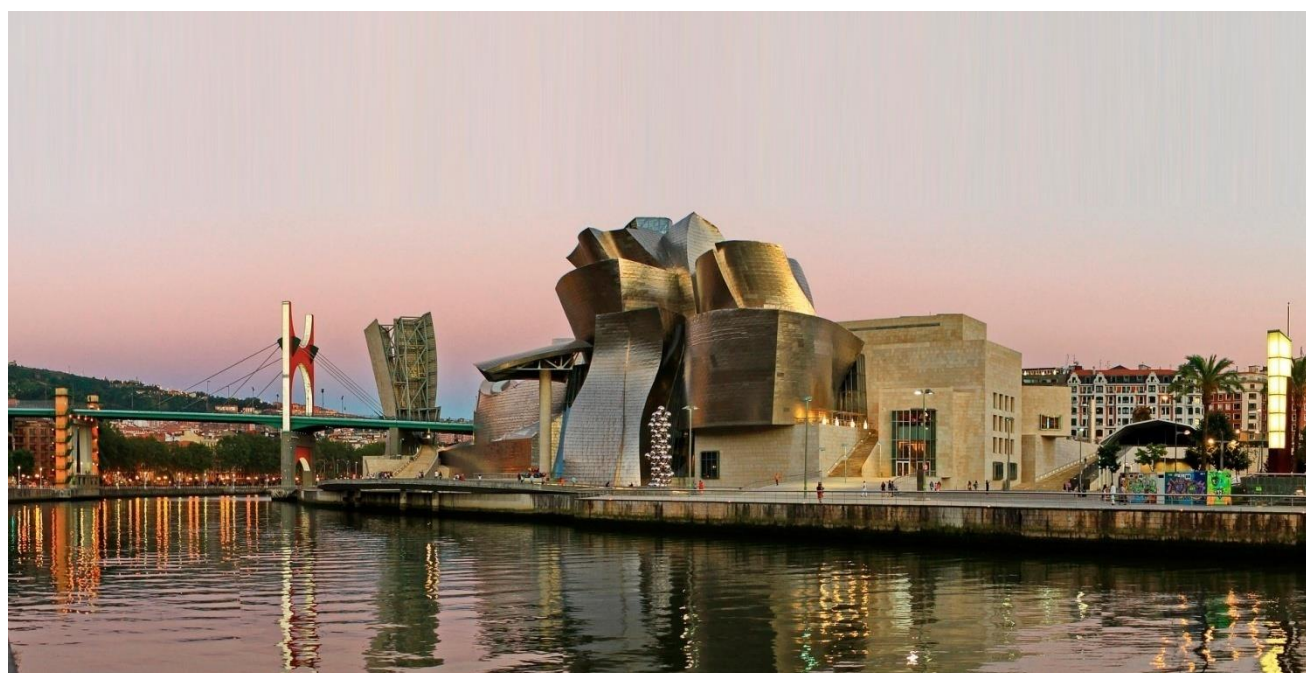
TAX CREDITS	
Applicable with a limit of 35% on the tax liability	
Investments in new non-current assets	10% / 5%
Creation of employment	€5,000 / €10,000
Environmental investments	30% / 15%
Investments in film productions and audiovisual series	30% (producer)
Book publishing	5%
Applicable with a limit 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.

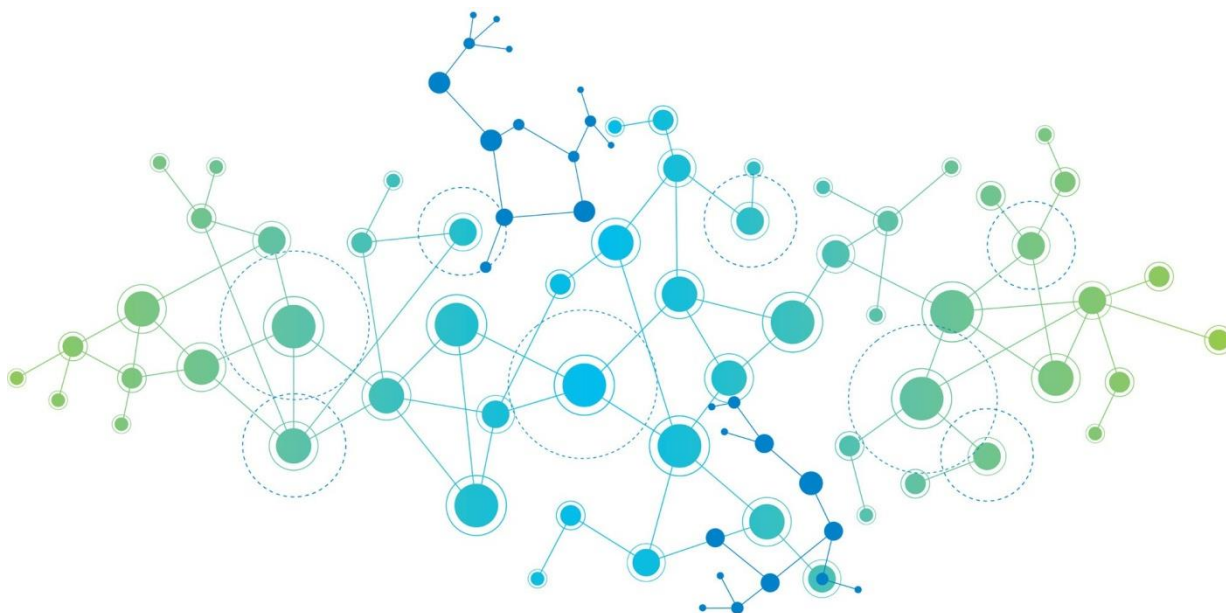
OFFSETTING OF NEGATIVE TAX BASES (TAX LOSSES)

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

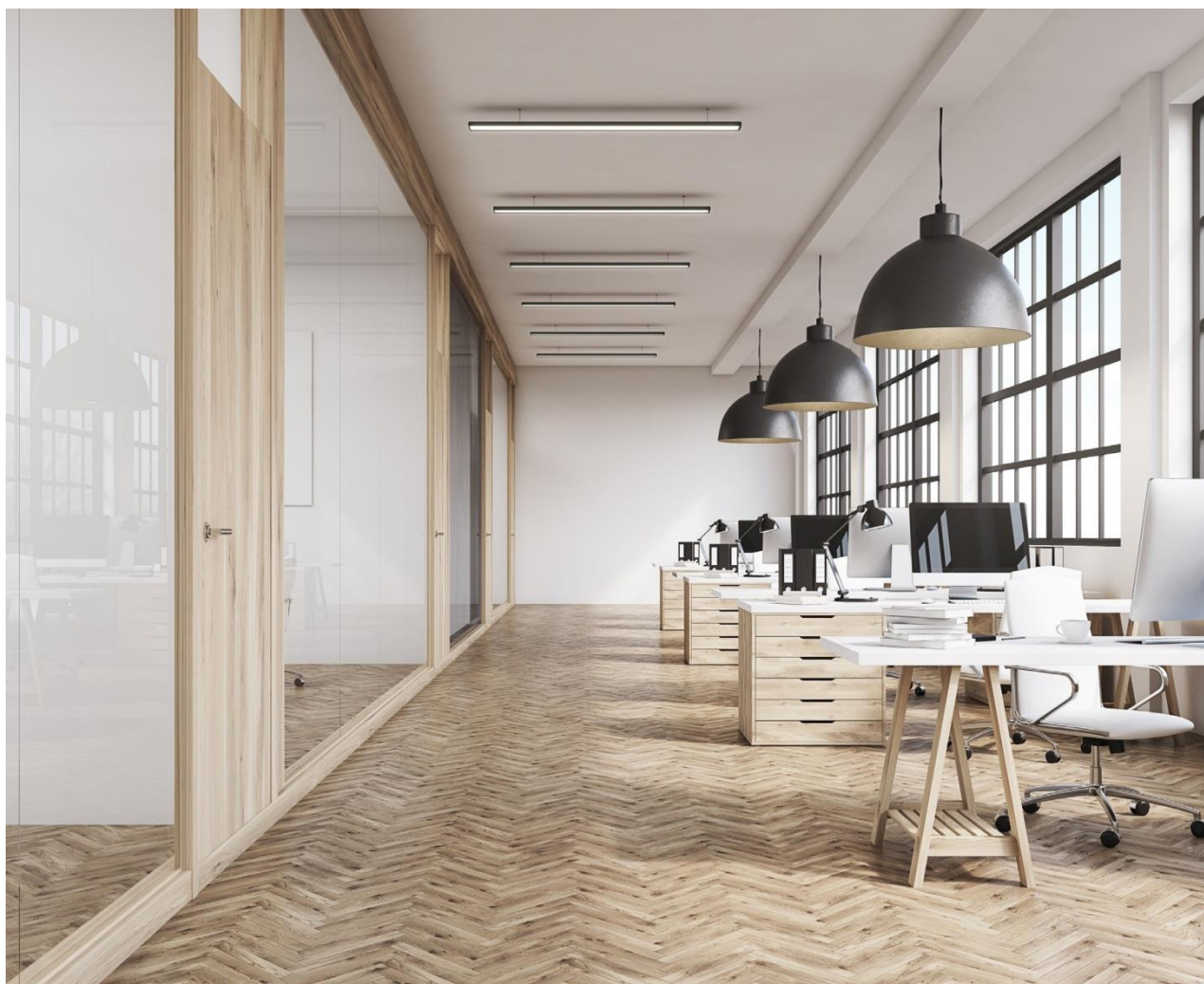
Intangible assets are amortised over their useful lives. If it is not possible to make a reliable estimate, amortisation is deductible with a maximum annual limit of 10%.

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%).

There are certain characteristics that should be highlighted:

- » Non-deductibility of payments made to the parent company, royalties, interest, fees, technical assistance or assignment and use of assets.
- » Deductibility of payments made for management and general administrative expenses.
- » Special rules are established to determine the tax base for certain cases:
- » 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.

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.).

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.

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.

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)**.

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.

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		

