

# DOING BUSINESS in **SPAIN**



## FOREWORD

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This guide has been prepared to provide basic information to those interested in investing and doing business in Spain. It does not cover in detail all the requirements and subjects considered, but it is aimed to provide an overall idea of the benefits of doing business in Spain and to answer basic taxation requirements.

The guide is intended to be used for informational purposes only and you should consult a professional tax advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of July 2017.

## ABOUT BLITA INTERNATIONAL

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BLITA International is a global association of independent tax accountants, tax attorneys and business consultants dedicated to providing personalized professional services for all your transnational tax planning and business management needs.

Our member firms are committed to providing the highest quality professional services to help meet your business and financial goals across international borders. The local expertise of our members regarding business and tax regulations, culture and knowledge of doing business in their home countries, allows them to provide the best solution and advice to maximize your profit and reduce your tax implications.

# WHY SHOULD YOU DO BUSINESS IN SPAIN?

## INTERNATIONAL INVESTMENT POWERHOUSE

The robust and constant growth of international trade and foreign investment in recent years has positioned Spain as the 6th country in the world with the highest FDI stock and the 6th largest investor in the European Union, according to the United Nations Conference on Trade and Development (UNCTAD). The country also ranks as the world's 15th importer and 17th exporter of goods and services.

Spain enjoys a cultural proximity with Latin America ahead of any other nation in the European Union. This is due to the boom in tourism, transport efficiency and confidence of several Spanish multinationals.

In addition, more than 9,000 foreign companies are present in Spain, of which 34% are in Barcelona.

## STRATEGIC GEOGRAPHIC LOCATION

Spain is the second largest country in Western Europe, occupying most of the Iberian Peninsula, bordering Portugal to the west, France and Andorra to the northeast, the Mediterranean Sea to the east and south, the Bay of Biscay to the north and the Atlantic Ocean to the northwest. This strategic location allows Spain to access a potential market of over 1.2 billion consumers in Europe, Latin America and North Africa.

In addition, Spain's status as a member of the European Union and its cultural and linguistic ties with Latin America distinguish it as a massive and attractive location for foreign investors, making Spain the ideal economic point for channeling investments to Latin America and for Latin American companies to access European markets.

## COUNTRY ESSENTIALS



<b>Capital city</b>	Madrid	
<b>Area and population</b>	505,370 km <sup>2</sup> and a population of 48,958,159 people (July 2017 est.)	
<b>Language</b>	Spanish / Catalan / Galician / Basque	
<b>Currency</b>	Euro	
<b>International calling code</b>	+34	
<b>National holidays</b>	New Year's Day	January 1st
	Epiphany	January 6th
	Good Friday	April 14th
	Labor Day	May 1st
	Assumption of Mary	August 15th
	Hispanic Day	October 12th
	Hispanic Day observed	October 13th
	All Saints' Day	November 1st
	Constitution Day	December 6th
	Immaculate Conception	December 8th
Christmas Day	December 25th	
<b>Working hours</b>	40 hours weekly	
<b>Major stock exchanges</b>	Madrid Stock Exchange, Barcelona Stock Exchange, Valencia Stock Exchange, Bilbao Stock Exchange, and SpainX. All of these are owned by the <i>Bolsas y Mercados Españoles</i> (BME).	
<b>Government structure</b>	Spain is a constitutional monarchy whose government is comprised of three main institutions known as the <i>Cortes Generales</i> , which are legally independent: The Congress of Deputies, the Assembly of Senators and the judiciary branch composed of a hierarchy of law courts, which are in compliance with Spanish and European law.	

## Tax & Business Professionals in Spain

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## FAVORABLE NETWORK OF TAX TREATIES FOR CHANNELING INVESTMENTS

Spain is the second largest investor in Latin America, and as such, has entered into more than 13 Double Taxation and investment protection agreements with countries in the area, leading all other European countries in terms of number of tax treaties signed with Latin America. Worldwide, Spain has signed over 80 Double Tax Treaties Agreements with countries whose economies represent approximately 95% of the global GDP.

## MODERN TRANSPORTATION INFRASTRUCTURE

Spain has two of the largest airports in Europe, Madrid and Barcelona. Approximately 250 airlines operate in 47 airports throughout the country which ranks 7th in Europe in passenger traffic. In terms of maritime transport of goods, Spain ranks 4th, with 46 Atlantic and Mediterranean ports. The ports of Valencia and Algeciras are among the 10 largest container ports in Europe and among the 50 largest in the world. With regards to land transportation, Spain boasts the number one network of freeways and divided highways in the European continent. Its ratio of freeways and divided highways to total highways is 5.9%, a larger figure than that of the European Union (1.2%), the United States (1.4%) and Japan (0.6%). In addition, Spain has the 5th largest rail network among the EU-15 countries.

Due to a national effort started nearly a decade ago, Spain has become a world leader in high-speed trains, positioning itself as the 1st country in Europe in extension of high-speed operation and 2nd in the world after China.

## GROWING DOMESTIC MARKET

The market growth of the Spanish economy over the past twenty years has been marked by a sharp increase in consumer demand and a steady expansion of production, which have taken place in the context of a more globalized economy.

Today, the Spanish domestic market constitutes a potential consumer base of 47 million individuals with an average per capita income of 28,282€, and the additional demand from the over 57 million tourists who visit the country ever year. Spain ranked 3rd in number of tourists worldwide during 2015-2016).

In addition, Spain is positioned in the sixth place of the economies with the best trade tariffs in the world, according to the *Global Competitiveness Index 2017-2018*.



## FREELY REGULATED CURRENCY OPERATIONS

Most price controls have been eliminated in Spain, with the exception of those in sectors still controlled by the national government and the few ones that are still under regional regulation.

Similarly, Spain has lifted all restrictions on foreign currency operations, except for the required prior reporting of certain capital movements aimed to prevent money laundering and tax fraud, and for statistical purposes. Spanish legislation on foreign transactions meets the standards set by the European Union.

## HIGHLY QUALIFIED WORKFORCE

Spain boasts one of the largest workforces in the world at approximately 23.2 million people. The country's workforce is considered to be one of Europe's most qualified, ranking 4th in the region behind Germany, the United Kingdom and France, in people with post-secondary education in scientific and/or technical areas; while maintaining labor costs, in terms of cost per hour, below the EU-27 average.

The number of immigrants to Spain increases every year, not only enhancing diversity in the labor market, but also bolstering the construction and service industries.

According to the *World Competitiveness Index*, the country's gross percentage enrollment in secondary education ranks 7th, while in tertiary education is in the top 6 worldwide.



# ESTABLISHING A BUSINESS

## PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Spain requires 7 procedures over an average of 13 days, making it the 85th country in the world in terms of regulatory favorability to start a business.

Procedures	Time to complete
Obtain a certification of uniqueness of proposed company name ( <i>Certificación negativa de la denominación social</i> ) from the Mercantile Register	2 days
Open a bank account for the company; deposit capital in the bank and obtain a deposit certificate	2 days
File the single electronic form (DUE) and make an appointment with a notary	1 day
Obtain the registered public deed of incorporation of the company and the fiscal identification number (CIF) before a public notary	7 days
Payment of the municipal tax for urban services ( <i>tasa por prestación de servicios urbanísticos</i> )	1 day
Submit a notification of start of operations ( <i>declaración responsable</i> ) to the Town Council	Less than 1 day (online procedure)
* Notify the Ministry of Labor and Industry of operations	Less than 1 day (online procedure)
<b>Total number of days</b>	<b>13 days</b>

Note: Steps marked with an asterisk (\*) may be completed simultaneously.



## REQUIREMENTS TO INCORPORATE A COMPANY

The *Sociedad Limitada* (S.L.), similar to a Limited Liability Company, is the most common form of incorporation in Spain. Shareholders in a S.A. are liable only to the value of their shareholding.

### COMPANY NAME

Spanish regulations require company names to be unique and approved by the Mercantile Register which takes around three days, once approved the name can be reserved for ten days free of charge. Additionally, company names must end with the suffix *Sociedad Limitada* or the abbreviation SL.

### REGISTERED OFFICE

Under Spanish regulations, all companies are required to have a registered office where official correspondence is sent this may be a commercial or residential address and it is normally the main place of business of the company. If the company has more than one place of business, these must be stated on tax forms.

### DIRECTORS

A *Sociedad Limitada* registered in Spain may have only one director, and there are no restrictions on the nationality or residency of the directors. The director may also be a shareholder.

### SHAREHOLDERS

A *Sociedad Limitada* registered in Spain may have only a single shareholder. An initial shareholder register is filed upon incorporation but any subsequent changes to shareholdings do not need to be filed. There are no restrictions on the nationality or residency of shareholders.

# TAXATION

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## CORPORATE TAXES

Corporate Income Tax is levied at a rate of 25% to resident companies on worldwide profits and capital gains and to non-resident entities whose permanent establishment is located in Spain.

An entity is considered to be resident in Spain when it meets any of the following requirements:

1. It was incorporated according to Spanish Law
2. It has its registered address in Spain
3. Its effective head office is in Spanish territory

There are special schemes and tax incentives that can lower the general rate and/or tax deductions that can be applied to the company, depending on the type of entity in question, the volume of operations of the previous year and/or the activities or investments made during the current year.

There's also a reduced tax rate of 15% for new companies for 2 years (NEWCO), which applies once the company has profits.

## TAXES ON CAPITAL GAINS AND DIVIDENDS

Capital gains and dividends are taxed as ordinary corporate income at a 25% rate. Double tax relief is available, given that certain requirements are met.

Nonresidents are generally subject to the provisions of international agreements to avoid double taxation.

For resident corporations, capital gains derived from an investment in a foreign company are exempt from taxation provided that there is a tax treaty involving an exchange of information clause with that country or if it has a tax rate equivalent to the Spanish corporate income tax. In order to qualify for this exemption, and among other requirements, the Spanish company must have a participation of at least 5% for at least 12 continuous months and the profits must come from foreign business activities.

## EMPLOYMENT TAXES

Tax withholding from income derived from employment is applicable on payroll. See table below for rates of contribution to social security.

	Base	Employer	Employee
<b>General Scheme</b>	Min. 755.60 Max. 3,606.00	23.60%	4.70%
<b>Regional scheme</b>	Min. 884.00 Max. 3,606.00	0%	29.80%

## SALES/ VAT TAXES

The VAT standard rate is 21% and is imposed on the sale of goods and the provision of services. Reduced rates of 10% and 4% are applicable in certain cases and certain transactions are exempt.

All taxpayers that carry out transactions in Spain are required to register. Filing and payment are due either monthly or quarterly depending on the turnover of the previous month.

## ESTATE AND GIFT TAXES

Estate and gift taxes are levied on all heirs, beneficiaries and recipients with Spanish residency, at a rate that varies from 7.65% to 32% depending on the region. This tax is also levied on non-residents who receive assets located in Spain. The different autonomous regions have the authority to change the tax burden.

## PERSONAL TAXES

Spanish residents are liable for personal income tax on their worldwide income. Non-residents are subject to tax only on their Spanish-source income under a separate tax scheme.

An individual is a resident of Spain if he or she spends more than 183 days of a fiscal year in Spanish territory or if his or her center of economic interests and professional activities is located in Spain.

Tax returns can be filed individually or jointly, in the case of married couples.

Individual taxable income includes earned income, such as salaries and business income, as well as passive income, such as dividends and capital gains. See table below for individual income tax rates.

If income is:		
Over	But not more than	Income tax rate
0.00 €	12,450.00 €	19%
12,450.00 €	20,200.00 €	24%
20,200.00 €	35,200.00 €	30%
35,200.00 €	60,000.00 €	37%
60,000.00 €	And over	45%

# MARKET OPPORTUNITIES AND COMMERCIAL SECTORS

## INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

The development that Spain has achieved in this sector occupies a preponderant place in the world, thanks to the support of different governments through the years which has allowed the technological modernization. Part of this has been the awareness to society that no development is possible without considering ICT as a fundamental tool, creating this an avidity in the market for the consumption of products and services related to this sector. Some products and services to consider are: fixed or mobile telephony, broadband, television networks, hardware and software, applications, e-commerce, etc.

In 2014 this sector invoiced around 90,000 million euros, representing 4.4% of the GDP in that year. The promotion of this sector by the government, the growth of the national market and imports of ICT makes Spain an attractive destination for investment in this sector.

## CHEMICAL INDUSTRY

The chemical industry in Spain is an important generator of wealth and employment and one of the most attractive sectors for international investors. The chemical industry in Spain includes numerous sectors and produces raw materials that are used in 98% of the productive processes of the economy in the country.

Having invoiced 56.4 billion euros in 2014, the sector represents 12.4% of GIP in Spain and generates 540,000 direct and Indirect jobs. On the other hand, it is the second export item with more than 32,000 million euros exported to international markets in the same year. 57% of Spanish chemical production is destined for export.

## INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

In the last 6 years, this sector has been intensely active both in the manufacturing and marketing of cars and in the design and implementation of eco-electromobility projects not only in Spain but throughout Europe.

Spain is the number 1 manufacturer of industrial vehicles, the 2nd largest automobile manufacturer in Europe and the 8th worldwide. It should be noted that the main automotive companies are established in Spain and that just over 80% of the vehicles manufactured in Spanish territory are exported to more than 100 countries.

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