

DOING BUSINESS

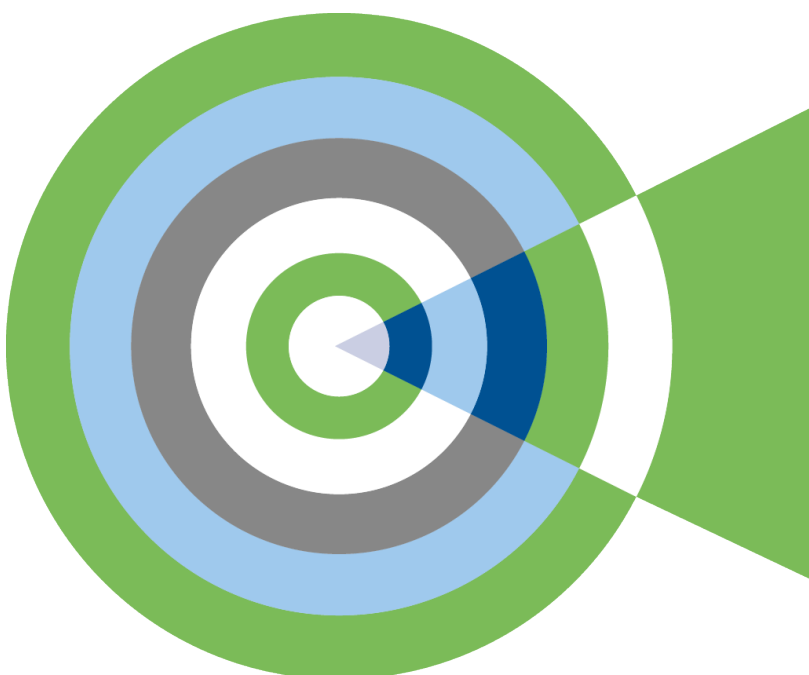
IN SPAIN



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing audit, accountancy, business management tax, legal and consultancy services through financial business centres in over 100 countries worldwide.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Spain has been provided by the office of UHY representative there:

UHY FAY & CO

C/ Serrano, No 1-4th floor.

Madrid 28001

Madrid, Spain

Spain

Phone +34 914 260 723

Website www.uhy-fay.com

Email mailbox@uhy-fay.com

You are invited to contact Bernard Fay (bfay@uhy-fay.com) with any inquiries you may have.

A detailed firm profile for UHY's representation in Spain can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current to April 2024.

We look forward to helping you do business in Spain.

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2 – BUSINESS ENVIRONMENT

THE SPANISH CONSTITUTION AND GOVERNMENT.

Under the 1978 Constitution, Spain is a parliamentary monarchy.

The king is the head of the state and monitors the functioning of the democratic institutions in accordance with the constitution.

The country is governed by a bicameral parliament known as the *Cortes*. This comprises a Congress of Deputies (*Congreso de los Diputados*) elected every four years by universal suffrage and a Senate (*Senado*) of directly elected representatives from the provinces and regions.

Spain has 17 autonomous regions and 2 autonomous cities, with a total of 50 provinces. The autonomous regions or communities share in the centrally collected tax revenues and directly collect certain taxes that are reserved for their use.

THE DOMESTIC MARKET.

POPULATION

According to the census of 2024, the country had 48.5 million inhabitants. The growth rate of the population is 1%. More than half of the people live in cities.

AREA

Spain is 506,013 square kilometres in size, including the Balearic and Canary Islands, and Ceuta and Melilla in North Africa.

POPULATION DENSITY

There are 92 inhabitants per square kilometre.

CURRENCY

The currency of Spain is the euro (EUR).

LANGUAGE

Spanish is the official language of the state. In certain autonomous regions, it is used jointly with other official languages.

THE ECONOMY.

The Spanish economy experienced growth in 2023, with an estimated expansion of 2.5%. This growth was marginally above the projections, was primarily driven by private consumption and, to a lesser extent, investment. External demand, which had a negative impact on economic expansion in the second and third quarters of last year, saw improvement in the fourth quarter.

For 2023, the GDP growth is projected to slow down to 2.1% and further to 1.9% in 2024, after experiencing strong post-COVID growth of 5.5%. The slowdown in inflation and a resilient labour market are expected to support household consumption. Additionally, stronger external demand will underpin export growth, and better demand prospects will encourage private business investment, despite the rise in the cost of financing. Headline inflation is projected to decrease to 3.9% in 2024, influenced by declining energy prices and monetary policy tightening. This performance is reflective of the Spanish economy's resilience in the face of global challenges, including the consequences of Russia's war of aggression against Ukraine. The GDP saw a 0.5% increase in the first quarter of 2023 compared to the previous quarter and was 3.8% higher than a year earlier. Both business and consumer confidence have shown improvements, although consumer confidence remains low. The labour market has been dynamic, with employment growing by 1.3% in the first quarter of 2023, and the unemployment rate slightly decreasing from 13.0% in December 2022 to 12.7%

UNEMPLOYMENT

The unemployment rate in Spain saw a significant improvement, reaching a 15-year low of 11.60% in the second quarter of 2023, down from 13.26% in the previous quarter. This marked the lowest unemployment rate since the

third quarter of 2008. The period also witnessed a record rise in employment, with the number of people employed increasing by 603,900 from the first quarter, totalling 21.1 million employed individuals.

PRICES AND INTEREST RATES

In 2023, the legal interest rate in Spain has been adjusted to 3.25%, marking an increase from the previous stable rate of 3% that was maintained for several years.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

As of December 2023, Spain's balance of payments data indicated a current account surplus, reflecting the country's financial interactions with the rest of the world. This financial account overview suggests nuanced dynamics in Spain's international investment and economic relations.

FINANCIAL INSTITUTIONS

Commercial, merchant and saving banks are involved in the great majority of financial transactions in all sectors of the economy. Saving banks handle business transactions and are very similar in their operations to the commercial banks but tend to specialise in private savings, personal loans and the financing of house purchases.

STOCK MARKET

The Madrid Stock Exchange is the largest securities market in Spain. The Spanish equity market has four stock exchanges: Barcelona Stock Exchange (Bolsa de Barcelona), the Bilbao Stock Exchange (Bolsa de Bilbao), and the Valencia Stock Exchange (Bolsa de Valencia), along with the Madrid exchange.

3 – FOREIGN INVESTMENT

Since the mid-2000s, Spain has played an important role both as a destination for and source of foreign investment. Strengthening FDI from abroad will help Spain continue to reap the benefits for the Spanish economy, while the country aspires to increase expansion in new and existing markets.

In the first quarter of 2023, Spain saw a significant increase in foreign investment, with a 20.3% rise compared to the same period in 2022, reaching 9.912 billion euros.

This growth represents a 50.8% increase compared to the average over the previous five years. The services and industry sectors were the primary recipients of this investment, demonstrating Spain's attractiveness to foreign investors and the country's economic resilience and growth potential.

For the full year of 2022, foreign investment in Spain reached 34.2 billion euros, marking the second highest figure recorded since 1993. This represented a 13.9% increase from 2021. The United States emerged as the leading investor, followed by the UK and Germany.

Furthermore, Spain was recognized for receiving 860 greenfield projects in 2022, the highest level ever recorded, which generated significant job creation. Spain's position as a major recipient of greenfield projects globally, especially in renewable energies and IT infrastructure, highlights its role in the international investment landscape and its capacity for attracting high value investments.

These developments underscore Spain's continued importance in the global economy as both a destination and source of foreign direct investment (FDI), situating Spain in the 12TH world ranking position today.

3.1.- Golden Visa

The Golden Visa is a type of temporary residence that can be accessed by citizens of non-EU nationality who want to have freedom of movement to spend the time they want in Spain or the Schengen area. By making an investment in Spain, any non-EU citizen can obtain this residence permit.

The benefits of obtaining the Golden Visa are the following:

- ✓ Obtain a residence permit in Spain.
- ✓ Work in Spain during the time the visa is in force.
- ✓ To circulate throughout the Schengen area without the need of a specific visa to do so.
- ✓ Access to permanent residence.
- ✓ Possibility to reunite the family.
- ✓ No obligation to stay in Spain during a minimum period of time for its renewal.
- ✓ No need to acquire tax residence.
- ✓ To maintain and renew this visa, the investor will only have to enter Spain once a year.
- ✓ Valid for 3 years with possibility to renew it indefinitely if the investment is maintained.

However, in order to obtain the Golden Visa, the applicant must invest in one of the following options:

(i) Purchase of real estate in Spain, being the minimum investment of € 500,000

This investment can be done through the purchase of one or more properties, whether residential or commercial.

(ii) Investment in public debt or financial assets worth € 2,000,000

An initial investment must be made for a value equal to, or greater, than 2 million euros in Spanish public debt securities, in a period not exceeding 2 months, before the application is submitted.

(iii) Investment in certain movable assets for a value equal to, or greater, than € 1,000,000

Initial investment for a value equal to, or greater, than 1 million euros in certain investments funds, bank deposits in Spanish financial entities or shares in Spanish companies with real business activity.

(iv) Carry out business projects in Spain considered of 'General Interest'

Must qualified as a business of general interest, among other requirements.

4 – SETTING UP A BUSINESS

Depending on the scale and requirements of their activities, foreign investors have different alternatives when setting up a business in Spain. The most popular option is to incorporate a limited company, with separate legal personality for the newly created entity, and limited liability of their shareholders for the company's debts. There are however other possibilities that could help you establishing your business in Spain, such as Temporary Joint Ventures (UTEs), Economic interest groupings (EIG), Branches or representative offices. We explain below the most common structures to start your business in Spain:

SELF-EMPLOYED WORKER (trabajador autónomo).

Operating as a self-employed worker (trabajador autónomo) only requires registration with the tax office and social security, but there is no limited liability (only under very restricted conditions it is possible to exempt certain assets from this general liability).

REPRESENTATIVE OFFICE.

For foreign companies willing to carry out market prospection, advertising, or local instrumental support to the non-resident Company, but without having any economic activity in Spain, the representative office would be a good fit. This structure allows to have a fixed place in Spain and hire employees but must comply with certain requirements to avoid being considered as a permanent establishment for tax purposes. The first step is for the non-resident Company to obtain a Spanish tax identification number (NIF). For this it is necessary to provide an original authenticated certificate of the Registry where the non-resident Company is incorporated and prepare the specific tax forms (036). For non-EU Companies to obtain their NIF they would also require the appointment of a tax representative resident in Spain. The representative office does not have a management body nor separate legal personality, so all the contracts shall be directly signed by the foreign Company. If the representative office has employees, Spanish legislation will apply, and the non-resident Company will also require a social security number to comply with labour obligations regarding social security contributions and employees' income tax withholdings.

TEMPORARY JOINT VENTURE (UTE) and ECONOMIC INTEREST GROUPINGS (EIG).

Created to carry out specific projects or services, the Temporary Joint Ventures are temporary business associations that allow several companies to operate together. They don't have a separate legal personality but enable the members to share risks and costs and combine resources. The creation of a UTE requires the signature of a Deed with a Notary reflecting the obligations and contributions by each party, as well as the

distributions of benefits. They have similar accounting and tax compliance obligations as limited companies, and they require registration with the Spanish tax authorities for the application of their special tax regime. The maximum term of a UTE is 10 years. Economic interest groupings (EIG) also serve to collaborate between its members, but they have separate legal personality for an indefinite time, the members are only subsidiarily liable, and their activities are accessory to those of their members (For example providing centralized services for all of them).

SILENT PARTNERSHIP AGREEMENT (CUENTA EN PARTICIPACIÓN).

These entities are used for the contribution of an investor (silent partner) to a business in exchange of a variable share in the profits and losses of the Company. Liability of the investor is limited to this contribution. The silent partnership contract creates a separate profit-loss partnership between the Company and the investor, without requiring any specific formalities. In practice the parties normally sign a Notary Deed as evidence to third parties of the existence of the agreement.

BRANCHES / SUCURSALES.

Creating a Branch in Spain does not create an entity with separate legal personality, but it is considered as a permanent establishment in Spain and has a certain degree of independence. The foreign parent company is therefore liable for all its obligations and debts. The Branch must keep its own accounting, submit financial statements and corporate tax every year, and needs to appoint a local representative of the Branch in Spain. To set-up a Branch in Spain it is necessary to previously pass a resolution by the competent body of the parent company agreeing to form a branch in Spain and to obtain a Tax Identification Number (NIF) of the parent Company. The Deed for creating the branch should be executed with a Spanish Notary and registered at the Commercial Registry. The Branch will conduct its economic activities directly and will be able to bill its clients independently. The accounts of a branch are part of the company's accounts and that, although the permanent establishments should submit their annual accounts in Spain, a branch does not limit its liability to the assets assigned to the branch, but to all company assets. The Spanish branch of a foreign company is a permanent establishment in Spain for tax purposes and is therefore required to keep accounts in accordance with the Spanish accounting principles and statutory requirements. This includes the obligation to file annual accounts to the Commercial Registry and an annual corporation income tax return for the branch as a permanent establishment in Spain.

PUBLIC LIMITED COMPANY (SOCIEDAD ANÓNIMA) and PRIVATE LIMITED LIABILITY COMPANY (SOCIEDAD LIMITADA).

These types of Companies are the preferred option for most foreign investors in Spain. There are two main types:

- Sociedad Limitada (S.L.) or Private limited liability company.

- Sociedad Anónima (S.A) or Public Limited Company.

Sociedad Limitada prevails as the most popular option, with up to 95% of the Companies incorporated in Spain in 2022. While Sociedad Limitada is suitable for Small to Medium Sized entities, Sociedad Anónima on the other hand is normally reserved for larger corporations, those in regulated sectors, and companies willing to raise capital in the stock market. Below are some of the main differences between both of them:

Share Capital

S.L. May be incorporated with a share capital of one (1) euro.

S.A. Minimum share capital of 60,000 euros, of which a minimum of 25% must be paid up upon incorporation. It requires a report from an independent expert for any non-monetary contribution.

Transfers of shares

S.L. Unless otherwise provided by the company's bylaws, the shares can only be transferred freely to the partner's family members or other partners. Other partners hold a right of pre-emptive acquisition.

S.A. The shares can be transferred freely. Spanish Companies Act establishes important limitations to restrict the transfers of shares in the Company bylaws. The shares may be marketable securities.

General meeting

S.L. As a general rule, general meetings must be summoned with a prior notice of fifteen days. Resolutions are passed by simple majority of valid votes provided they represent at least one-third of the voting rights. As a general rule, the right to attend shareholders meetings cannot be restricted.

S.A. General meetings must be summoned with a prior notice of one month. At first call there is a minimum attendance quorum: 25% of the issued share capital with voting rights. The bylaws may require a minimum percentage of shares to attend the meetings.

Management body

S.L. Directors may be appointed for an indefinite term. If the management body is a Board of Directors it should have a maximum of 12 members.

S.A. Directors have a maximum term of 6 years, with possibility of reelection. There is no limit of members for the Board of Directors.

The incorporation of a Limited Company in Spain requires the following steps:

- Obtain a Foreign identification number (NIE) for all foreign individual Directors or individual shareholders of the Company.
- To set-up a subsidiary in Spain of a foreign Company it is required to obtain previously the **Tax Identification Number (NIF) of the parent Company**. At this stage it is necessary to provide a Certificate from the Companies registry of the foreign Company, and obtain an appointment at the Spanish tax office to submit the required forms and the documents legalised (apostille) and sworn translated.
- Clearance of the Company name at the Central Commercial Registry.
- Contributions in cash to the share capital should be transferred to a 'Company under incorporation' bank account. It is also possible to make non-cash

contributions of different types of assets. For the Limited Companies (SL) it may not be necessary to prove the contributions have been made when the Notary Deed includes a statement by the shareholders, whereby they assume joint liability (for the amount of such minimum contributions) towards creditors and the Company.

- The Limited Company is incorporated before a Spanish public notary. The deed will include the Company Bylaws. The minimum information requirements to be reflected in the company formation Deed include the details of the shareholders, registered office in Spain, activity of the company, managing body, capital structure, accounting year-end and term.
- Submit a declaration of Foreign investment to the Spanish Ministry of Industry and Commerce.
- Declaration of transfer tax, fully exempt. No tax is actually paid.
- Registration of the Notary Deed at the Companies Registry.
- Obtain definitive Company tax number (NIF). The obtention of an EU VAT number in Spain is normally subject to the verification by the tax office that the Company actually complies with certain additional requirements.

Although all the other steps can be completed with a Power of attorney, the opening of the Company bank account normally requires the Company director to meet in person with the bank officers to comply with the Spanish anti-money laundering Act, as well as providing a Deed declaring the beneficial owner of the Company (Individuals ultimately controlling, directly or indirectly the Company, either by owning more than 25% of the share capital of the Company, or as members of the Management Body).

UHY FAY & CO IS AN ENTREPRENEUR SERVICES POINT (PAE).

We prepare all the required documents through an official online platform (CIRCE) shared with the Notaries, the tax office, and the Companies Registry, which accelerates the registration process (shortening it from 2 weeks to 1-2 days) and reduces incorporation costs (Notary and Registry fees).

5 – LABOUR

Employment in Spain is legally regulated through general rules and collective bargaining agreements which vary by sector.

The social security system is obligatory in Spain and provides cover for all situations from work accidents to retirement.

The principal characteristics of employment and social security are summarised in the following section.

EMPLOYMENT CONTRACTS.

Employment contracts must be in writing compulsorily in most of cases.

The employment of people that are not registered at the Social Security Office and do not have a written contract can result in serious consequences for the employer, including heavy fines in some cases.

Special care should be taken in the employment of foreigners, particularly those from outside the EU, by ensuring that all necessary documentation is in order prior to signing the contract.

Personnel costs are high compared with net take home pay, due to compulsory extra pay and high employer's contributions to social security. Therefore, total wage costs can easily be underestimated. In all cases, it is essential to be guided by professionals specialising in this field.

TRIAL PERIOD OF EMPLOYMENT

Trial periods are periods during which the working relationship can be broken without the obligation of paying a compensation. Trial periods are normally established in collective bargaining agreements, but general regulation establishes the following trial periods:

- Graduate employees – maximum six months.
- Other employees – maximum two months, three months in companies with less than 25 employees.
- Contract to give experience – maximum one month unless otherwise stated in the collective bargaining agreement.
- Apprenticeship – cannot be set trial period.
- Temporary contract (maximum 6 months) – one month unless otherwise stated in the collective bargaining agreement.

TYPES OF CONTRACTS

Employment contracts for an indefinite term are officially encouraged by incentives that may vary between regions, depending on the activity of the company and the situation of the employee. The company can obtain grants/subsidies for the social security in certain cases.

There are different types of temporary contracts for the different needs of employers. The cause of temporary contracts must be clearly specified in the contract as the employment contract is presumed to be for an indefinite term. The most commonly used ones are as follows:

- To deal with an accumulation of orders – the contract in the case of for unforeseeable reasons can be for a maximum of six months in a twelve-month period. This can be modified by collective bargaining agreement. In the case of foreseeable reason for a short duration can be for a maximum of 90 days.
- To replace employees on temporary leave of absence with the right to return to their jobs.
- To give work experience to qualified persons within three years after finishing their studies (five years if the person is disabled). The salary must be established in the collective bargaining agreement or, failing that, that of the professional group and pay level corresponding to the functions performed. The term of the contract must be between six months and one year.
- Apprenticeship – for unqualified workers, in general there is no age limit, with a reduction in the working day of 35% during the first year of the contract and 15% during the second year of the contract and salary must be established in the collective bargaining agreement that cannot be lower of the 60% first year and 75% second year of the professional group and pay level corresponding to the functions performed. The term of the contract must be between three months and two years.

SOCIAL SECURITY.

All employees and self-employees must be covered by social security. Contributions are compulsory.

Self-employed persons are responsible for the payment of their own contributions.

An employer is responsible for paying the contribution of its employees to the Social Security, withholding the corresponding quota at the time of paying their salaries. On top of the above, the employer pays its own contribution to the social security system, being approximately 32% of the employee's gross payslip. The aggregation of both contributions must be included in the official form to settle the employer's payment. The form must be submitted before the end of the following month.

6 – TAXATION

The Spanish state levies taxes on personal income and wealth, corporate profits, value added goods/services, transfers of goods and services among non-trading taxpayers, estates, and gifts.

Some of these taxes are managed and collected by the central government and others by the autonomous regions. In addition, local authorities levy taxes on property, increase of value of urban land, construction works and business activities, though the latter applies only to large companies.

BASIS OF TAXATION.

Liability to taxation is determined by the residency of companies or individuals, by the location of assets and the source of income.

Residents of Spain pay tax on their worldwide income, whereas non-residents are generally only subject to tax on Spanish sourced income.

Foreign income is fully taxable but a credit for foreign tax paid or unilateral relief may be given in accordance with domestic law, double taxation agreements and EU directives.

An individual is considered resident for the entire year if he/she spends in Spain over 183 days in the calendar year. Spanish nationals changing their fiscal residence to tax havens will be considered fiscal residents for the year of departure and the following four.

Corporations, whose effective head office is in Spain, can be deemed to be resident. Non-resident corporations are subject to tax only on income arising from business carried out in Spain or through a permanent establishment in Spain. There are some kinds of pass-through entities and partnerships where profits are taxed in the hands of the shareholders instead of the entity.

The fiscal year of a company cannot exceed 12 months and any reduced period resulting from a change in the year-end will be considered as a separate tax year.

CORPORATE INCOME TAX.

The general corporate tax rate in Spain is currently 25%.

There is a reduced tax rate of 23% and 15%, the latter applicable to new entities, providing that they are considered trading and subject to certain requirements, for the first 2 years the company makes profits.

There are a number of tax credits and relieves that can often reduce the overall tax liability provided certain requisites are met:

- 60% reduction applicable to certain royalty income,
- 10% reduction on undistributed profits,
- 25%-30% tax credit on film investments,
- 25%-42% tax credit on R&D investments,

- 12% tax credit on technological innovation investments,
- Dividends and capital gains deriving from the sale of shares, either resident or non-resident are 95% exempt.

Other tax credits/exemptions related to the avoidance of double taxation on foreign source income (dividends, capital gains, royalties, etc.) in accordance with EU directives and international double taxation agreements can be found.

Financial expenses are deductible with certain limitations, as well as fixed assets' depreciation.

Tax losses can be indefinitely carried forward and can be offset up to 70% of net taxable profits with at least one million euros allowed yearly. Medium-sized and large companies (over 20 million euros turnover) have more stringent limits.

Corporation tax is payable within 25 days after the end of the six-month period following the year end. Advance payments on account of the tax liability of the year are payable three times a year as a percentage of the last corporate income tax liability or, at the taxpayer's request or compulsorily for taxpayers over 6 million euros turnover, as a percentage of current year's net profits.

SPANISH INTERNATIONAL HOLDING COMPANIES (ETVEs).

From 1 January 1996, Spain joined those countries that have already included international holding companies in their tax legislation, known as ETVEs in Spain.

Spanish international holding companies are not taxed for dividends or profits allocated from foreign subsidiaries, as well as for capital gains deriving from the transfer of their shareholdings in foreign subsidiaries if the shareholding is held for at least one year and it represents at least 5% of the share capital in the subsidiary.

The exemption does not apply for subsidiaries residing in a tax haven or with a nominal corporate income tax rate under 10% unless the relevant country has subscribed a double tax treaty with Spain; also, where a participation in a non-trading company is transferred.

The main advantage the ETVE regime provides for is that, unlike other kinds of companies, full exemption is granted for distributions of profits in the way of dividends to their non-resident shareholders providing that they are not resident in a tax haven.

Any company can become an ETVE providing that its corporate object includes managing the participation in its foreign subsidiaries, it has the required means to manage that participation and the regime is duly applied for to the tax authorities.

INDIVIDUAL INCOME TAX.

The total income of the individual taxpayer resident in Spain is the base of taxation, with very limited expenses allowed in general.

There is a general allowance per taxpayer of EUR 5,550. There are further reductions of:

- EUR 1,150 where the taxpayer is over 65.
- EUR 1,400 where the taxpayer is over 75.

- Between EUR 3,000 - 9,000 on the taxable base for disabled taxpayers, depending on their level of disability.

Likewise, further reductions are allowed for children under 25 and/or parents over 65 living with the taxpayer.

Salaries, interests, dividends, business profits and capital gains are considered taxable income. Filing the return is not an obligation where the taxpayer's salary is below the threshold of yearly EUR 22,000 and the aggregation of interests and dividends in the year does not exceed EUR 1,600, although the taxpayer may opt for the submission to obtain the refund of withholding taxes or prepayments made during the year.

Taxable income is divided into the general base and the savings' base, this encompassing capital gains and losses generated from the disposal of the taxpayer's assets, interests, and dividends. The general base includes any other income, including business income and is taxable according to the general sliding scale of rates of the tax. This general scale is progressive, with the minimum tax rate ranging between 19% and 23% and the maximum between 43% and 48%, depending on the autonomous region.

Benefits in kind are generally taxable, with some exceptions such as private healthcare insurances paid by the employer as well as training and tuition to employees. Some expenses can be offset against employment income, such as social security contributions and registration fees in professional associations and trade unions.

Net income from business activities is generally assessed following the rules of corporate income tax, as the result of offsetting deductible expenses against eligible income.

The savings' base is taxed at the following rates:

- 19% on the first EUR 6,000.
- 21% on the balance up to EUR 50,000.
- 23% between EUR 50,000 and EUR 200,000.
- 27% between EUR 200,000 and EUR 300,000
- 28% on the excess over €300,000

Losses can only be offset against gains included in the same part of the tax base, either the general base or the savings' base. Losses not offset in the same year can be carried forward for four years.

Capital gains from the sale of the primary residence are tax-exempt, up to a limit, when the proceeds of the sale are reinvested. Also, capital gains originated by taxpayers over 65 when selling their primary residence.

WEALTH TAX AND SOLIDARITY TAX ON LARGE FORTUNES

Wealth tax levies net wealth of individuals over 700,000€. Residents of Spain are liable to this tax on their worldwide wealth. This tax is managed by the regions and therefore there are specific rules applicable in each of them. Non-resident individuals may also be liable for this wealth tax if they hold assets in Spain over 700,000€.

In regions where wealth tax is 100% relieved, Tax on Large Fortunes may be applicable. This tax levies net wealth of individuals over 3,7M€. This is a temporary tax imposed by the Spanish government on the wealthiest fortunes in Spain to deal with the cost-of-living crisis. This is a central tax and not ceded to autonomous communities, so the allowances and tax rates cannot be modified by the autonomous governments.

The rates are between 1,7% and 3,5%, very similar to those applicable under the Wealth Tax.

In order to avoid double taxation, the law allows the taxpayer to deduct any wealth tax paid in their autonomous community from their solidarity tax liability.

NON-RESIDENTS INCOME TAX.

Non-residents are subject in Spain to tax on income and gains originated in Spain.

The general flat rate for income originated by non-residents without a permanent establishment in Spain is 24%, with different rates for specific sources of income. EU resident taxpayers without a permanent establishment in Spain are subject to a single flat rate of 19% on most sources of income, with some deductible expenses allowed.

Interests, dividends and gains obtained in Spain without a permanent establishment are subject to a 19% flat rate. Interests paid to EU resident taxpayers are nonetheless exempt from taxation in Spain, as well as dividends to EU resident parent companies under the provision of EU Directives, with certain requisites.

Non-residents taxpayers without a permanent establishment in Spain will bear a 3% withholding tax made by the buyer because their definitive tax liability when selling a property in Spain. If the final tax to pay is below the amount withheld, the difference will be refunded to the taxpayer.

Non-resident property owners without a permanent establishment in Spain are subject to non-residents income tax on deemed income of 2% on the rateable (cadastral) value (or 1.1 % if the cadastral value has been reviewed in the last ten years) of the property. Then, the general tax rates apply on such deemed income to arrive at the final tax liability.

Permanent establishments in Spain of foreign companies generally assess their net income following the rules of corporate income tax, as the result of offsetting deductible expenses against eligible income. Some of the costs of the parent company can be eligible to be offset against income originated by the permanent establishment.

FISCAL REPRESENTATION OF NON-RESIDENT COMPANIES AND INDIVIDUALS.

Non-resident's persons and companies subject to income or wealth tax must, in certain cases, appoint a fiscal representative.

Failure to do so may result in a fine of EUR 2,000 for non-resident taxpayers subject to income tax in Spain or EUR 6,000 for those residents in countries without effective exchange of information with Spain.

TAX DECLARATION ON ASSETS HELD ABROAD.

Resident taxpayers must file an annual declaration for informative purposes including certain categories of their assets abroad.

After 2013, the anti-fraud law obliges resident taxpayers (as well as non-residents with a permanent establishment in Spain) to file an annual informative declaration on assets they hold abroad.

Assets held abroad are assigned for the purposes of this informative declaration to one of three categories:

- Bank accounts and deposits.
- Real estate.
- Stock in companies, insurances, and annuities.

The obligation to declare arises when any of the three categories exceeds EUR 50,000. Once filed for first time, the declaration must be filed in any of the following years if the balance of a category already declared increases over EUR 20,000 or the taxpayer is no longer the owner of any of the assets declared.

When the declaration is due, it must be filed within the first quarter of the year.

Apart from this, as from FY 2023 there is a new obligation to report virtual currencies.

This new declaration must be filed through the Form 721 within the first quarter of the year, and its failure causes the same fines explained above.

OTHER TAXES.

VALUE ADDED TAX (VAT)

The VAT rules and regulations are based on the EU 2006/112/CE Directive, harmonized at an EU level.

The general rate is currently 21% with certain basic products and services taxed at reduced 10% and 4% rates. Exports and assimilated transactions are not subject to taxation.

TRANSFER TAX

Transactions for consideration among non-trading taxpayers are taxed by Transfer Tax. Real estate transactions are taxed at rates ranging from 6% to 10% depending on the autonomous region.

Transactions over movable assets, such as cars, vessels, furniture, etc. among non-trading taxpayers are generally taxed at 4%.

The tax is payable by the acquirer of the relevant asset.

Stamp duty applies on transactions formalized in public documents and neither subject to any of the rates above nor to inheritance and gift tax, which must gain access to a public register.

TAX ON CAPITAL

Incorporation and share capital increases are exempt from stamp duty. Under certain requirements, no stamp duty applies either to reorganizations such as mergers, demergers, etc.

Liquidation of a company is subject to 1% stamp duty on its equity value.

INHERITANCE AND GIFT TAX

Inheritance and gift tax only applies to individuals, while companies are not subject to this tax. This tax is levied on gifts among individuals and estates.

The tax is assessed based on a sliding scale with a top rate ranging between 34% and 36.5% depending on the autonomous region. Full exemption is available for close relatives in some autonomous regions.

The final tax liability can be increased after the application of multiplying coefficients depending on the degree of kinship with the deceased person and the pre-existing net assets of the heir.

LOCAL TAX ON THE INCREASE OF VALUE OF URBAN LAND (LOCAL 'PLUSVALÍA' TAX)

Where a property or plot on urban land is transferred, the Town Hall levies 'plusvalía' tax on the increase of value of that land (or the proportional part of the land on which the property is erected) from last time it changed hands.

The tax base is assessed on the basis of the evolution of the rateable (cadastral) value of the land while tax rates vary from town to town.

The tax is precluded if the taxpayer can demonstrate that he made a loss in the transaction.

LOCAL TAX ON PROPERTY

An annual tax ('IBI') based on the rateable (cadastral) value of properties is payable to the local tax authorities. Tax rates vary from 0.4% up to 1.30% (for urban property) and depending on the municipality.

LOCAL TAX ON BUSINESS ACTIVITIES

An annual tax on business activities is payable to the municipal authorities. Tax payable depends on the type of activity, the location, and the population of the town. This tax only applies to companies with a turnover over EUR 1,000,000, with the first two years exempt.

7 – ACCOUNTING & REPORTING

Since 1990, Spanish domestic law has incorporated the rules and regulations of the EEC Fourth Directive on accounting, the reporting requirements of the EEC Seventh Directive on consolidated accounts for groups of companies, and the EEC Eighth Directive on the control of accounts and external audits.

All businesses are required to keep adequate accounting records in accordance with the Code of Commerce and the Spanish General Accounting Plan. All companies registered in the Company Registry are obliged to file an annual reporting pack including a balance sheet, profit and loss account and notes to the. Additionally, for those companies that are obliged to file full accounts, it is mandatory to include a statement of cash flows accounts, statement of changes in the net equity and a management's report. From 1 January 2002, all companies should keep their accounting records in euros. For companies that are obliged to file full accounts and are therefore subject to an external audit, a copy of the audit report must be included in the reporting pack.

Small companies may file abridged accounts providing they do not exceed two of the following limits for two consecutive years:

- Total assets of EUR 4,000,000
- Net turnover of EUR 8,000,000
- Average number of employees 50

All companies exceeding the above limits are required to file the complete reporting pack. However, companies may be obliged to have an annual external audit providing they exceed two of the following limits for two consecutive years:

- Total assets of EUR 2,800,000
- Net turnover of EUR 5,700,000
- Average number of employees 50

Audit is a regulated activity in Spain. The audit law of 2015 restricts the audit of accounts to suitably qualified persons or firms registered in the Spanish Official Register of Auditors of Accounts (ROAC), kept by the Spanish Institute of Accounting and Auditing (ICAC). Persons or firms who are not qualified so cannot legally act as independent auditors of accounts in Spain, no matter what other Spanish or foreign qualifications they may have.

Minimum professional indemnity insurance of EUR 300,000 per partner is obligatory by law. Auditors may practice individually, in a partnership or as a corporation.

Statutory corporate records should include the:

- Incorporation deed.
- Memorandum and articles of association.
- Minutes book (shareholders and directors meeting).
- Register of shares or participations.

OFFICIAL BOOKS OF ACCOUNTS

The official books of accounts must be legalised by the Companies Registry and must be kept together with all the supporting documentation for at least six years.

8 – UHY REPRESENTATION IN SPAIN



CONTACT DETAILS

UHY Fay & Co
C/ Serrano, 1-4^º
Madrid
Spain
Tel: +34 91 426 0723
Fax: +34 91 426 0724
www.uhy-fay.com

CONTACTS

Liaison contact:	Bernard Fay
Position:	Managing Partner
Email:	bfay@uhy-fay.com
Liaison contact:	Joseph Fay
Position:	Partner
Email:	jfay@uhy-fay.com

SOCIAL MEDIA CONNECTIONS

- Facebook: <https://www.facebook.com/UHYFayCo>
- LinkedIn: <https://www.linkedin.com/company/uhy-fay-&-co>
- Twitter: <https://twitter.com/uhyfayco>
- YouTube: <https://www.youtube.com/user/UHYcanal>

Year established: 1983
PCAOB registered?: Yes
Number of partners: 23
Total staff: 179

ABOUT US

UHY Fay & Co offers a one-stop-shop of professional services and tailor-made solutions to our clients.

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

BARCELONA

Phone: +34 93 595 50 50
Contact: Fe López
E-mail: flopez@uhy-fay.com

MADRID

Phone: +34 91 426 0723
Contact: Bernard Fay
E-mail: bfay@uhy-fay.com

MALAGA

Phone: +34 952 060 469
Contact: Agustín Cruz
E-mail: acruz@uhy-fay.com

MARBELLA

Phone: + 34 952764065
Contact: Joseph Fay
E-mail: jfay@uhy-fay.com

SANTANDER

Phone: +34 942 214 650
Contact: Irene Rivero



The network
for doing
business



E-mail: irivero@tecnisa-campos.com

SANTIAGO DE COMPOSTELA

Phone: + 34 922 019 086

Contact: Alejandra Barreiro

E-mail: alejandra@bcleconomistas.com

SANTA CRUZ DE TENERIFE

Phone: + 34 922 019 086

Contact: Alejandra Barreiro

E-mail: alejandra@bcleconomistas.com

BRIEF DESCRIPTION OF FIRM

UHY Fay & Co was founded with the vocation of offering the highest quality service and the commitment of making our clients succeed by delivering integral advisory services that offer the best solution to each case and the objective of establishing long-term relationships with our clients as their trusted advisors.

Currently, UHY Fay & Co is amongst the top 20 leading firms providing professional services in Spain with a wide structure of offices spread over the major cities of the country.

We offer a full set of services that range from compliance of tax, legal, ESG and accounting requirements to highly specialised ad hoc projects with the added value that provides the coordination of the different areas of expertise.

Over the past 40 years the firm has helped a large number of foreign businesses to establish in Spain and many Spanish businesses in their international expansion.

SERVICE AREAS

Audit & Assurance

Advisory

Tax & Legal

ESG & Sustainability

Entertainment & New Tech

SPECIALIST SERVICE AREAS

Internationalization of businesses Corporate finance (M&A)

Transfer pricing

International tax

Pre-immigration tax planning

Tax claim & tax litigation

Corporate reorganization

VAT

Forensic accounting

Due diligence

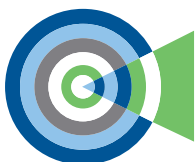
Valuation of Business and Shares

Business outsourcing

Cloud Accounting

Ciber Security

Equality Plans





Social Corporate Responsibility
Compliance
Business services
Labour

PRINCIPAL OPERATING SECTORS

Automotive
Chemical & Pharmaceutical
Energy & Environmental
Family Owned Companies
Financial
Food & Drinks
Industry Manufacturing
Media & Entertainment
Real Estate & Construction
Retail Distribution
Software
Telecommunications
Tourism
Transport
Non Profit Organizations

LANGUAGES

Spanish, English, French, German, Russian, Italian.

CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

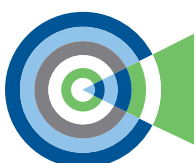
OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

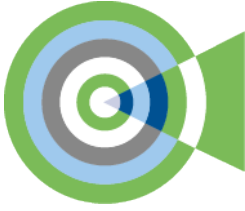
Angola, Brazil, Channel Islands, Denmark, France, Germany, Ireland, Italy, Luxembourg, Malta, Mexico, Morocco, Netherlands, Philippines, Portugal, South Africa, Switzerland, Turkey, UK, United Arab Emirates, US.

BRIEF HISTORY OF FIRM

In 1983, Bernard Fay, a British Chartered Accountant, founded Fay & Co Chartered Accountants with the objective of providing the Spanish professional services market with a multidisciplinary firm. The idea was, and is, to provide clients with integrated services of the highest quality with the added value of our internal coordination of the different disciplines.

The firm decided to join the global network UHY in 1996 with the aim of offering its professional services independently of the geographical area where clients developed their businesses. The UHY network offers our clients over 300 offices in over 100 countries and access to more than 8,500 professionals to help your business compete for overseas or cross-border business effectively and successfully.





LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at www.uhy.com to find contact details for all of our offices, or email us at info@uhy.com for further information.

UHY is an international network of legally independent accounting and consultancy firms whose administrative entity is Urbach Hacker Young International Limited, a UK company. UHY is the brand name for the UHY international network. Services to clients are provided by member firms and not by Urbach Hacker Young International Limited. Neither Urbach Hacker Young International Limited, the UHY network, nor any member of UHY has any liability for services provided by other members.

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