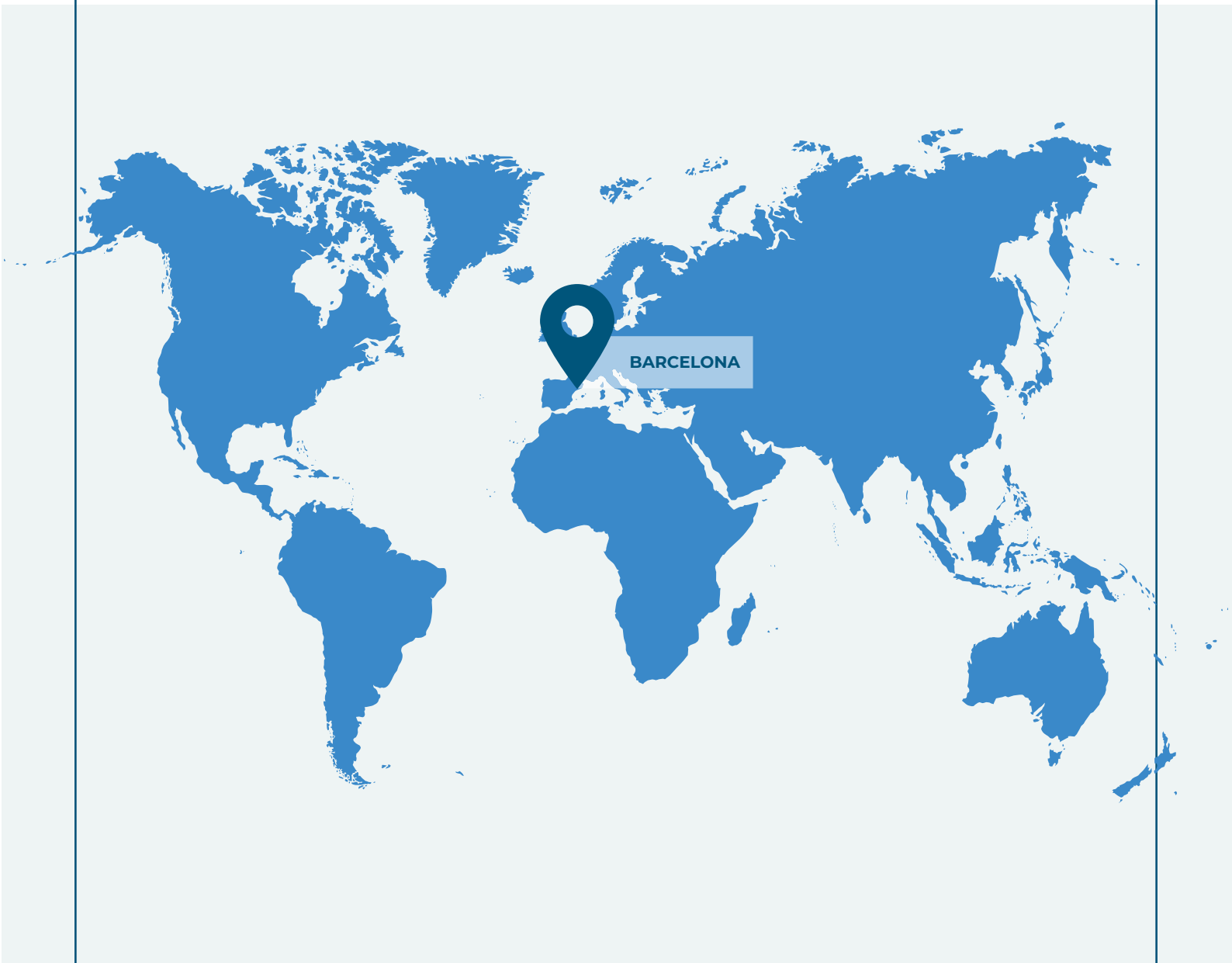


DOING BUSINESS IN SPAIN



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TO SET UP A BUSINESS IN SPAIN YOU CAN EITHER:

Open a branch office or choose one of the different forms of company as a subsidiary

BRANCH	SUBSIDIARY
This is not a separate legal or economic entity from the company abroad and is only independent for tax purposes.	This is a separate Spanish company in its own right.
Representatives must be appointed.	A sole director, various joint or joint-and-several directors, or a board of directors (with a managing director where appropriate), may be established.
It is an auxiliary entity, with no top-level management activity.	The activity is fully independent.
Establishment is by a notary deed, registered at the Spanish Companies Register, with accreditation of the existence of the company abroad.	Incorporation is via a public notary deed registered at the Companies Register
Stock capital, where provided, is an "assigned capital contribution" made by the company abroad.	Minimum stock capital is 1 euro, which must be fully subscribed and paid-up.
Accounting books must be kept.	Accounting books must be kept.
Annual accounts filed in Spain depend on whether accounts are presented in the country of origin.	Annual accounts, including the balance sheet, income statement and annual notes, must be filed.
Liability extends to the headquarters abroad.	Liability is limited to the subsidiary.
The most common obligations are: Corporate (non-resident) Income Tax, Value Added Tax, Tax on Business Activities, and Company Social Security contributions on employee salaries. Withholding tax on employee salaries and on services from self-employed professionals must also be paid over.	The most common obligations are: Corporate Income Tax, Value Added Tax, Tax on Business Activities, and Company Social Security contributions on employee salaries. Withholding tax on employee salaries and on services from self-employed professionals must also be paid over.
It is not subject to audit.	It may be subject to audit if certain requisites are fulfilled in any two successive years.

TYPES OF SUBSIDIARIES AND THEIR CHARACTERISTICS:

A subsidiary in the Netherlands is an affiliated company that is independent and can take its own legal structure. It is registered with the Dutch Trade Register under its own registration number and it is taxed according to its residency which is the Netherlands.

There are 5 forms of companies, namely:

Sociedad Anónima (S.A.) (Public Limited Company)	Sociedad de Responsabilidad Limitada (S.L.) (Private Limited Company)	Sociedad Limitada Nueva Empresa (SLNE) (New Private Limited Company)	Sociedad Cooperativa (Cooperative Company)	Sociedad Comanditaria (Limited Partnership Company)
Capital is divided into shares issued as bearer or registered shares that can be traded on the stock market.	The capital is divided into quotas (participation shares) and must be fully paid-up on incorporation.	The capital is divided into quotas (participation shares) and must be fully paid-up on incorporation.	Members' contributions are represented by corporate participations, which cannot be traded commercially or seized for personal debts of the members. These contributions can take the form of money, goods, or economically - valuable rights.	There are two types of partners; limited partners and general partners. Limited partners contribute capital but do not participate in the management of the company, while general partners contribute capital and also manage the company. Partners' contributions can take the form of money, goods, or economically- valuable rights. These contributions constitute the company's stock capital.
The minimum capital required is 60,000 euro, which must be fully subscribed and paid-up.	The minimum capital required is 1 euro (with the condition that 20% of the annual profit is allocated to a legal reserve until it reaches 3000 euro), and it must be fully subscribed and paid-up.	Offers flexibility in stock capital, with a minimum of 3000 euro and a maximum of 120,000 euro, adapting to the initial financial needs of the business.	The minimum capital required varies depending on the co-operative's articles or by-laws but is usually low.	Spanish legislation does not require a specific minimum capital for the incorporation of a Limited Partnership Company. However stock capital must be sufficient to perform the company's planned activities and cover its initial needs. For a participation-based Limited Partnership Company (a variant of the limited partnership), a minimum capital of 60,000 euro is required, of which at least 25% must be paid-up on incorporation.
Shareholders are not personally liable for the company's debts. Their liability is limited to the value of the shares they own.	Partners are jointly and severally liable for the existence and the value of the investment in kind against third parties and the company.	Partners are jointly and severally liable for the existence and the value of the investment in kind against third parties and the company.	Members are not personally liable for the cooperative's debts over and above their contributions to the stock capital.	Limited partners have liability limited to the capital they have contributed, while general partners have unlimited and joint liability for company debts.
Suitable for large companies	Suitable for small and medium-sized companies.	A variant of the private limited company, designed to facilitate the creation of companies, with specific characteristics such as a maximum number of partners.	An association of individuals performing business activities jointly together.	A Limited Partnership Company is suitable when the aim is to combine capital investment with active business management, although with a clear distinction between the roles and responsibilities of the partners.



TAXES

A. Corporate Income Tax

Corporate income tax is levied on all legal entities that are either resident or have a permanent establishment in Spain.

A company is considered resident in Spain if it meets one of the following conditions:

- It is incorporated under Spanish law;
- Its legal seat is located in Spain;
- Its place of effective management is located in Spain.

1. Rates

The current CIT rate is fixed at 25%.

A 23% tax rate is granted to corporations with a net turnover lower than €1 million in the previous year.

A 15% reduced tax rate applies to the following companies: (i) newly created companies for the first tax period in which they have a positive taxable base and for the following period; and (ii) companies qualifying as startups for the first tax period in which the tax base is positive and the following three years, as long as the company still qualifies as a startup.

2. 15% minimum taxation

A 15% minimum taxation will affect taxpayers with a net turnover of at least €20 million in the previous year and those subject to the tax consolidation regime (regardless of their net turnover). Some companies are excluded from the scope of this measure, namely those with a reduced or a zero rate, such as investment companies with variable capital, financial investment funds, real estate investment funds and companies, and real estate investment trusts ("REIT") regulated under Act 11/2009, among others. The gross tax due, net of all credits and allowances, cannot be lower than the result of applying 15% to the CIT taxable base. This 15% minimum taxation rate increases to 18% in

the case of credit institutions and companies dedicated to the exploration, research and exploitation of hydrocarbons (which apply a 30% tax rate instead of 25%).

3. Non-deductible expenses

Accounting expenses are considered tax deductible if they are duly registered in accountancy and documented in the corresponding invoice.

Specific tax deduction rules apply to the following accounting expenses:

- amortization and depreciation of assets and rights;
- bad debts;
- financial leasing agreements;
- provisions for loss of value of editorial, phonographic or audiovisual inventories; and
- the depreciation of financial goodwill of investments in non-resident companies.

Net financial expenses are tax deductible up to €1 million per year. Net financial expenses exceeding this amount are tax deductible provided they do not exceed 30% of annual EBITDA.

Tax deduction of impairment losses of the value of fixed and intangible assets and participations in quoted and non-quoted entities is deferred to the tax year in which the asset or participation is transferred to third parties or due to the winding up of the company.

Some expenses are considered non-deductible and must be adjusted to the CIT taxable base. Such expenses include:

- the remuneration on equity (dividends) - A 95% exemption is granted for dividends, profit distributions and capital gains deriving from the transfer of shares in other companies, whether resident or non-resident. Tax exemption is granted if the taxpayer (i) holds a stake of at least 5% in the company, and (ii) participates for at least one year before the date on which they are payable.;

- CIT expense;
- fines and sanctions;
- gambling losses;
- donations, gifts and contributions to internal provisions or funds equivalent to pension schemes;
- expenses deriving from unlawful activities;
- expenses for operations performed, directly or indirectly, with persons or entities residing in tax havens;
- financial expenses (interest) from debt-financing borrowed from a lender entity or entities that comprise a group of enterprises used to purchase shares in third entities or shares in other entities that belong to the same group of entities;
- remuneration exceeding €1 million per year paid to workers due to the extinction of the labour or commercial relationship with the enterprise;
- expenses incurred in transactions with related entities that, due to a different fiscal qualification of such entities, do not generate taxable income or derive in tax-exempt income or income subject to taxation below a 10% tax rate; and
- tax on documented legal acts paid on signing a mortgage loan deed.

4. Tax credit

For tax periods 2021 to 2025, specific transitory provisions grant this tax exemption to dividends, profit distributions and capital gains derived from shares acquired by the taxpayer before 2021 representing a stake of under 5%, but with an acquisition cost higher than €20 million.

Special rules apply for this tax exemption when profit distributions or capital gains from the sale of participations derive from entities where income from dividends or capital gains from the sale of participations exceed 70% of their total return.

Foreign-source dividends and capital gains from transfers in qualifying foreign companies may also apply for this tax exemption provided the prior requisites are met and also provided the profit distribution or the capital gain deriving from the transfer corresponds to a foreign entity subject to an income tax that is identical or analogous to Spanish CIT and where the tax rate is at least 10%.

A similar tax exemption is provided for foreign income derived from a permanent establishment. Losses derived from foreign permanent establishments are not tax deductible in the tax year when losses are incurred, but when the permanent establishment is transferred or liquidated.

A similar tax exemption is provided for foreign income derived from a permanent establishment. Losses derived from foreign permanent establishments are not tax deductible in the tax year when losses are incurred, but when the permanent establishment is liquidated.

Specific tax credits are granted for some corporate investments:

- R&D and technological innovation investments. CIT taxpayers may benefit from the following tax deductions on the gross CIT due: (i) 25% of expenses arising from R&D activities, plus an additional 17% of the payroll expenses for qualified researchers assigned exclusively to R&D activities; (ii) 8% of investments in tangible and intangible fixed assets (excluding buildings and land) for R&D activities; and (iii) 12% of expenses arising from technological innovation activities.
- Investment in film productions, audiovisual series and live performances of scenic arts and music.
- Employment creation.
- Creation of new jobs for disabled people.

Foreign tax credit may be claimed for any foreign tax paid on foreign-source income up to the amount of the tax payable in Spain on such income.

5. Deduction of tax losses

A negative tax base must be carried forward and offset against positive tax bases calculated in the following tax years without any temporary limitation.

The maximum percentage of income that can be offset by negative taxable bases is 70% of the positive taxable base of a given year. The limit is calculated based on the taxpayer's taxable income.

However, companies may use €1 million of negative taxable bases annually to offset their positive taxable income without regard to the 70% limitation. Specific limitations of 50% and 25% of the taxable base before adjusting the capitalization reserve and before offsetting apply when offsetting a negative taxable base in the case of taxpayers whose turnover in the previous tax year exceeds €20 million.

6. Rules on related-party transactions

In line with OECD transfer pricing guidelines, whereby related-party transactions are valued on an arm's length basis and are subject to certain documentation requirements.

7. Formal obligations

Prepayments in April, October and December of the current tax year and filing of a corporate income tax return in July of the following year (if the fiscal period is the calendar year; otherwise, within 25 days of the 7th month following the period close).

B. Personal income tax (Spanish IRPF)

1. Nature

Tax levied on the worldwide income of individuals resident in Spain for tax purposes.

2. Tax residence

An individual is a tax resident in Spain if he or she has been in the country for over 183 days of the year or if his or her centre of economic interests is in Spain. An individual is presumed to be a tax resident of Spain when his or her spouse and/or dependent children live in the country.

3. Tax rate

General income (such as employment income or business income) is subject to a progressive tax up to a maximum of around 47%. Savings income (such as interest income, dividends and capital gains) is taxed at a maximum of approximately 23%. These rates may vary by autonomous community.

Specific tax rules may apply for tax residents in the Basque Country and Navarra regions. Certain regions have introduced changes whereby the highest marginal rates may be above the national tax scales. Therefore, tax planning is essential before non-residents arrive to Spain.

4. Incentives for the international mobility of workers

Inbound expatriates can apply, prior request, a special regime (paying taxes as non-residents when they meet certain conditions), and outbound expatriates can take advantage of an exemption on earnings obtained from work performed abroad.

C. Non-resident income tax (Spanish IRNR)

1. Nature

Tax levied on income earned in Spain by individuals or legal entities that are not resident in Spain.

2. Permanent establishment (PE)

Income attributed to an EP is taxed in accordance with corporate income tax rules.

3. Income obtained without a PE

Main tax rates:

- Standard: 24% (19% for EU residents).
- Dividends, capital gains and interest income: 19%.
- Royalties: 24%.

Main exclusions:

- Capital gains (does not include buildings, real-estate companies or substantial holdings in companies) and interest income obtained by EU residents;
- Dividends, interest income and royalties, in application of EU directives, when paid to associates resident in the EU and providing certain requirements are met.

Rates may be reduced, or taxes may be eliminated upon application of tax treaties.



D. Value-added tax (VAT)

Value-Added Tax (VAT) is the main type of indirect taxation in Spain. It is a tax on consumption which is levied on the supply of goods or services, intra-community acquisitions and imports.

1. Nature

Tax levied on the worldwide income of individuals resident in Spain for tax purposes.

Indirect tax levied on supplies of goods and services, intra-Community acquisitions and imports made by traders or professionals in Spanish territory (except the Canary Islands, Ceuta and Melilla).

VAT is primarily borne by consumers and, in general, is neutral for companies that act as collection agents, given that they charge output VAT to their customers and receive a refund for input VAT paid to their suppliers.

VAT is not neutral in sectors that carry out VAT-exempt activities (such as the financial sector).

A transaction is within the scope of Spanish VAT if the following conditions are met:

- It is a supply of goods or services;
- It takes place within the Spanish territory;
- It is made by a business or professional for valuable consideration, either regularly or occasionally;
- It is made in the course or furtherance of any business carried on by that person or entity.

Any business that makes taxable transactions in Spain should be VAT registered in Spain.

2. Tax rates

There are three rates of VAT that are applied to goods and services in Spain; the standard rate, the reduced rate and the super-reduced rate. In addition, some goods and services are exempted from the tax:

- Standard rate of 21 per cent for most goods and services;
- Reduced rate of 10 per cent for a specific list which includes, for example, substances normally used for human and animal nutrition except alcoholic drinks, residential buildings or passenger transport;
- Super-reduced rate of 4 per cent for a specific list which includes, for example, ordinary bread, milk and derivatives, cheeses, eggs, fruits, cereals and books.

Some goods are exempt from VAT, including:

- Medical and social services;
- Financial and insurance transactions;
- Educational and sport services;
- Leases of some kinds of real estate Businesses that make exempt supplies are unable to claim all the input tax they incur, so the VAT paid to suppliers will be a 'real' cost.

Most goods imported into Spain from outside the EU are subject to VAT. The tax will have to be paid by the importer at the time of importation. Where the importation is for business purposes and the importer is registered for VAT, it may be possible to reclaim the tax (subject to certain rules).





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