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# Tax Reform

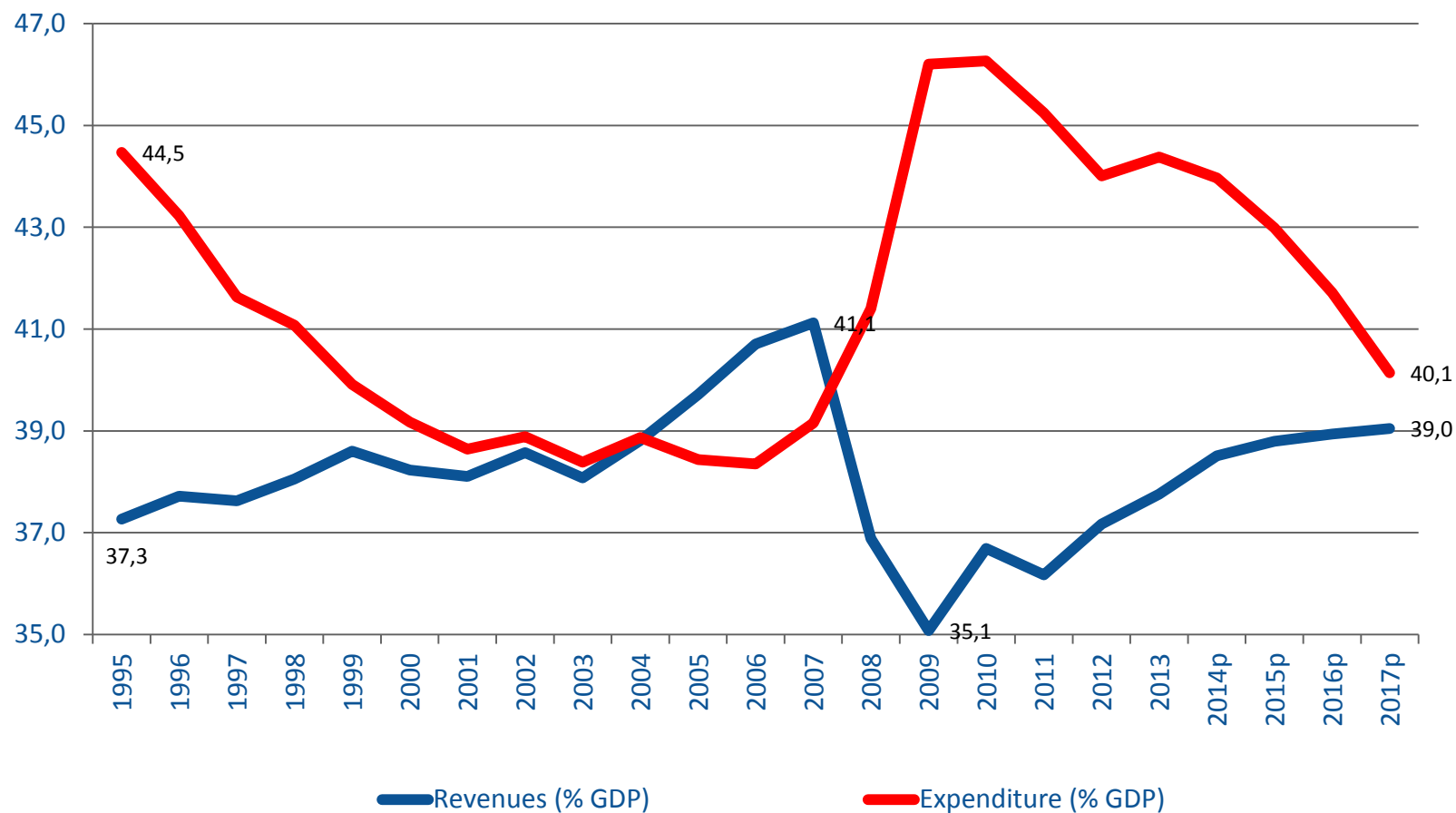
Madrid, 23 June 2014



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## Development of public revenues and expenditure in Spain (1995-2017)

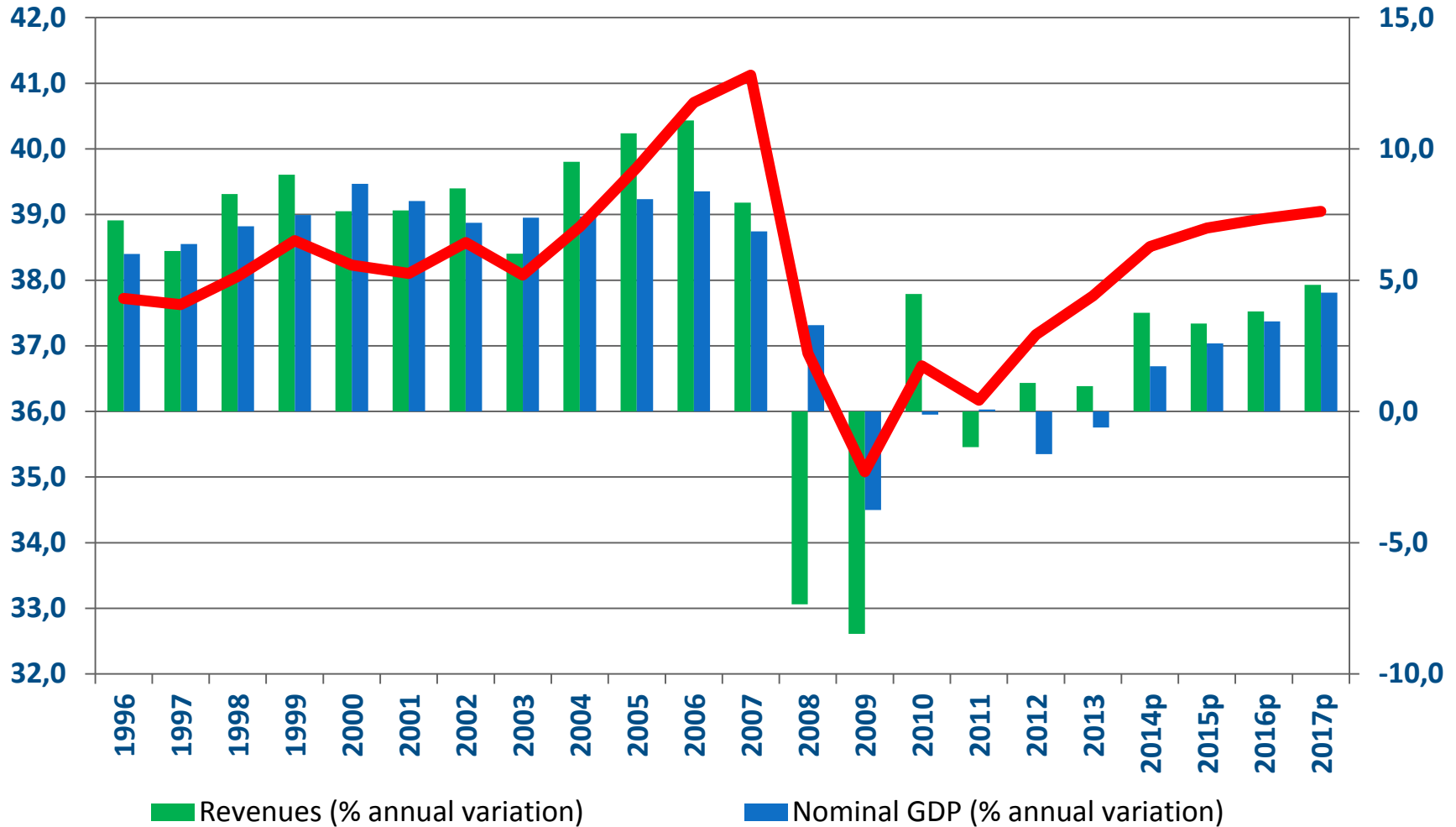




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# REVENUES National Accounts



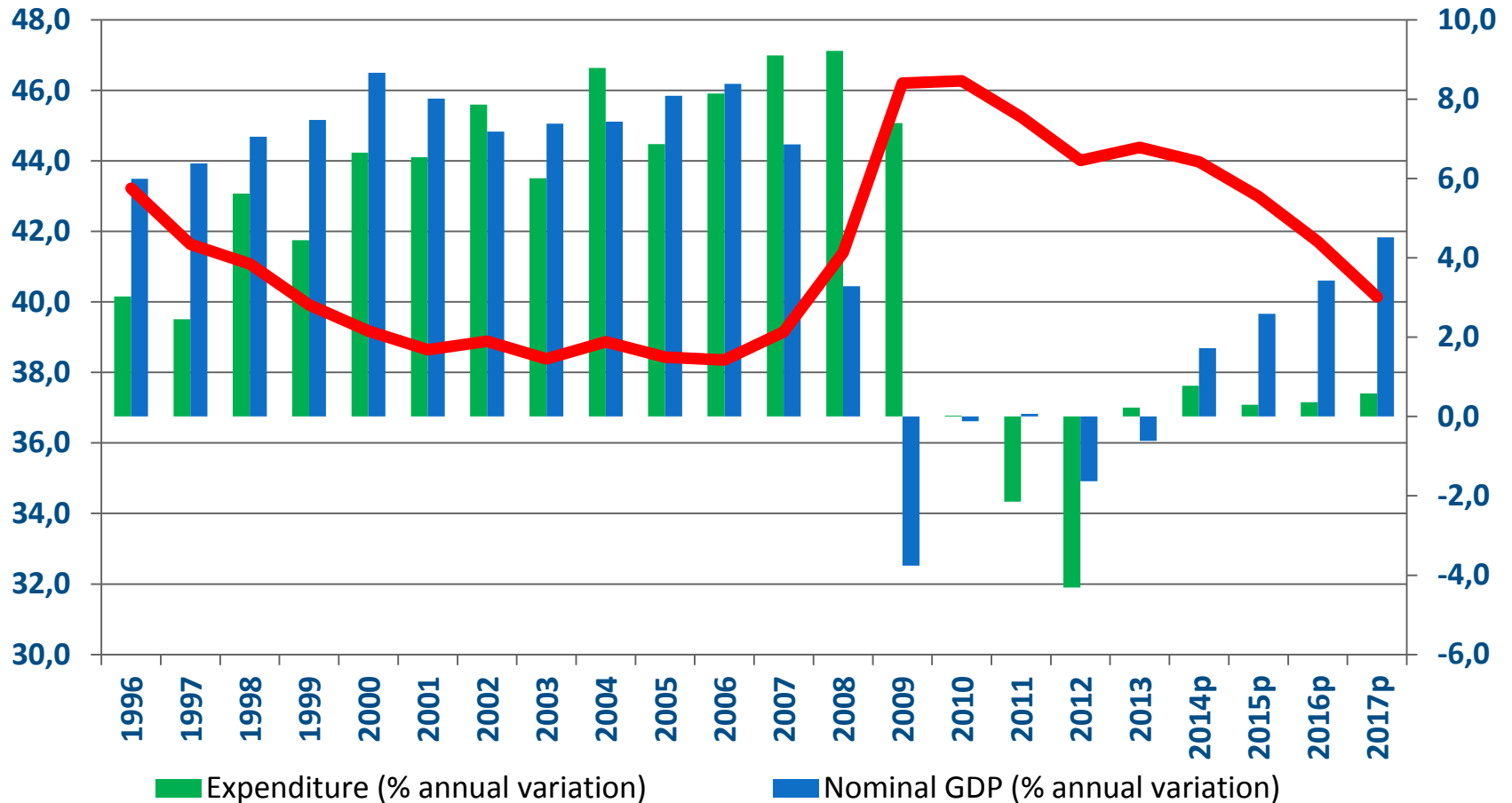
23/06/2014 Revenues (% GDP)



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# EXPENDITURE National Accounts



Expenditure (% GDP)

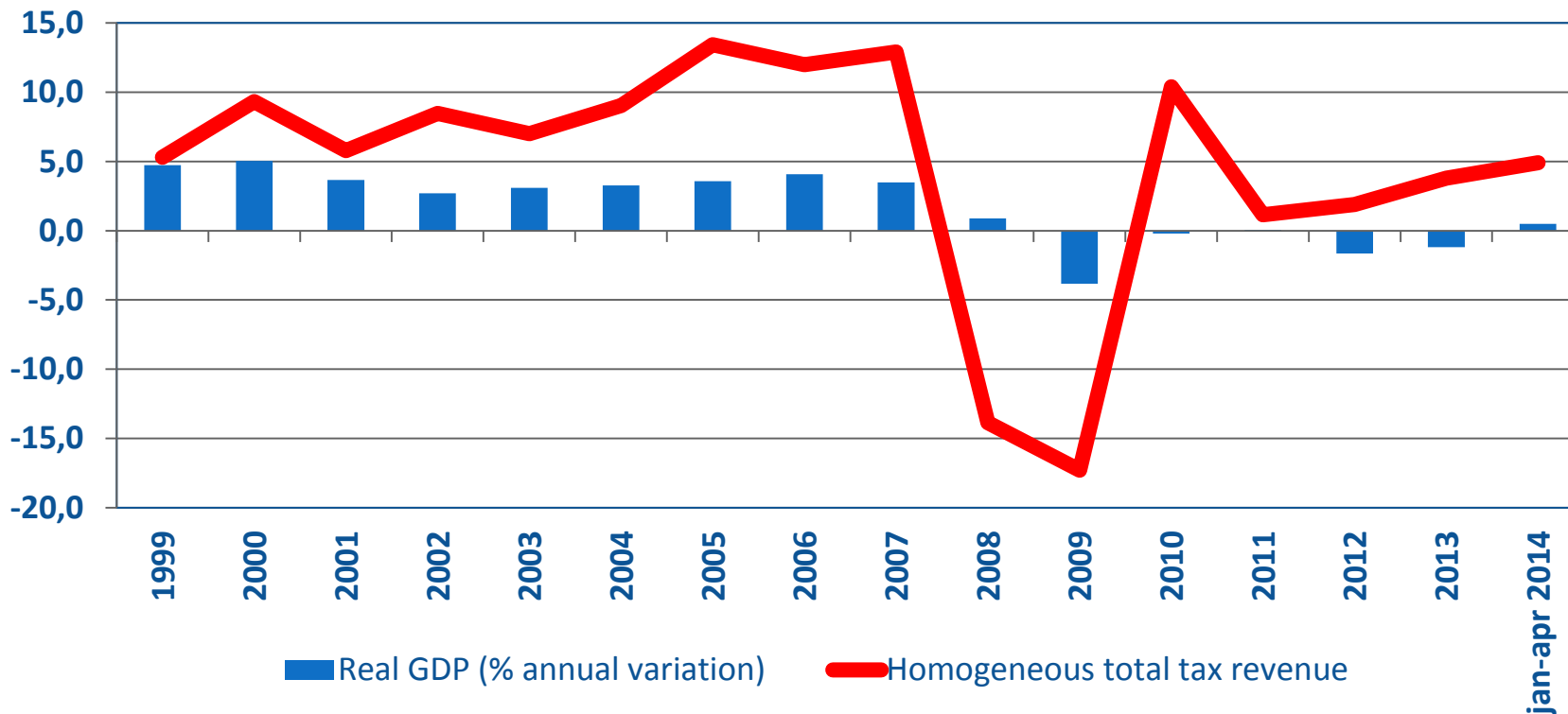


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# Tax Revenue Recovery

GDP real growth and tax collection  
(% annual variation)



	2009	2010	2011	2012	2013	Jan-April. 2014
Annual growth homogeneous tax revenues	-17.3	10.4	1.1	1.9	3.7	4.8

Source: AEAT

23/06/2014



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# Tax Revenue Development

## Total tax revenue (million euro and % inter-annual variation)

	Closing 2011	Closing 2012	Variation 12-11	% 12/11	Closing 2013	Variation 13-12	% 13/12
I. PERSONAL INCOME TAX	69.803	70.619	816	1,2%	69.951	-668	-0,9%
I. CORPORATIONS	16.611	21.435	4.824	29,0%	19.945	-1.490	-7,0%
<i>Development of payments on account</i>							
<i>Large business and Groups</i>	7.626	11.636		52,6%	14.692		26,3%
<i>SMEs</i>	1.872	1.758		-6,1%	1.485		-15,5%
<i>Others</i>	136	215			121		
<i>Total</i>	9.634	13.609		41,3%	16.298		19,8%
OTHERS	2.158	3.027	869	40,3%	3.154	127	4,2%
<b>TITLE I.- DIRECT TAXES</b>	<b>88.572</b>	<b>95.081</b>	<b>6.509</b>	<b>7,3%</b>	<b>93.050</b>	<b>-2.031</b>	<b>-2,1%</b>
VALUE ADDED TAX	49.302	50.464	1.162	2,4%	51.931	1.467	2,9%
EXCISE TAXES	18.983	18.210	-773	-4,1%	19.073	863	4,7%
OTHERS	2.965	2.920	-45	-1,5%	2.721	-199	-6,8%
<b>TITLE II.- INDIRECT TAXES</b>	<b>71.250</b>	<b>71.594</b>	<b>344</b>	<b>0,5%</b>	<b>73.725</b>	<b>2.131</b>	<b>3,0%</b>
<b>TITLE III.- DUTIES AND OTHERS</b>	<b>1.938</b>	<b>1.892</b>	<b>-46</b>	<b>-2,4%</b>	<b>2.072</b>	<b>180</b>	<b>9,5%</b>
<b>TOTAL TAX REVENUE</b>	<b>161.760</b>	<b>168.567</b>	<b>6.807</b>	<b>4,2%</b>	<b>168.847</b>	<b>281</b>	<b>0,2%</b>



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## TAX REFORM TIMETABLE

	Adoption	Entry into force
<b>PIT:</b>		
Interim tax rate	2014	2015
Final tax rate	2014	2016
<b>CIT:</b>		
Interim tax rate	2014	2015
Final tax rate	2014	2016
<b>VAT/NRIT</b>	2014	2015
<b>GTL</b>	2014	2015



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## TAX REFORM: ROUTE

- **June, 20:**
  - ✓ Presentation to the Cabinet Meeting
  - ✓ Referral to Autonomous Communities
  - ✓ Referral to workers' and employers' organisations
  - ✓ Two-week publishing in the Web for public information
  - ✓ Required reporting from:
    - ✓ Council of State
    - ✓ General Council of the Judicial Authority
    - ✓ Data Protection Agency
- **June, 26:**
  - ✓ Analysis with the Autonomous Communities within the Tax and Financial Council
- **July:**
  - ✓ Adoption of the bill and referral to Parliament





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## OBJECTIVES Of The TAX REFORM

- To boost **job creation**. To reduce taxation on labour income and to strengthen **competitiveness**
- To revitalise the economic **growth**. Modernisation of the tax system to promote saving and investment
- Towards **a more equitable tax system**. Highest reduction for low and middle incomes, social benefits for families with children and/or disabled members, and new measures to fight against tax fraud. Stimulus to patronage



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PIT



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## PIT: To boost the economic growth

- As a consequence of the reduction in PIT withholdings, in 2015 20 million taxpayers will have more disposable income per month
- Expected GDP increase 0,55% in 2015-2016 as a consequence of the overall reduction of taxes



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# General Tax Rate

## 2015 General Tax Rate

Taxable base		Rate (%)
Up to	12.450	<b>20%</b>
12.450 –	20.200	<b>25%</b>
20.200 –	34.000	<b>31%</b>
34.000 –	60.000	<b>39%</b>
60.000 --	Onwards	<b>47%</b>

## General Tax Rate 2016

Taxable base		Rate (%)
Up to	12.450	<b>19%</b>
12.450 –	20.200	<b>24%</b>
20.200 –	35.200	<b>30%</b>
35.200 –	60.000	<b>37%</b>
60.000 --	Onwards	<b>45%</b>

Taxable base		Rate 2011	Complem. Tax	Rate 2012-14
Up to	17.700	<b>24%</b>	0,75%	<b>24,75%</b>
17.700 –	33.000	<b>28%</b>	2%	<b>30%</b>
33.000 –	53.400	<b>37%</b>	3%	<b>40%</b>
53.400 –	120.000	<b>43%</b>	4%	<b>47%</b>
120.000 –	175.000	<b>44%</b>	5%	<b>49%</b>
175.000 -	300.000	<b>45%</b>	6%	<b>51%</b>
300.000 -	Onwards	<b>45%</b>	7%	<b>52%</b>



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## Income from savings Tax rate

Taxable base		Rate 2011	Complementary Tax	Rate 2012- 14
Up to	6.000	19%	2%	21%
6.000	– 24.000	21%	4%	25%
24.000	– Onwards	21%	6%	27%

Taxable base	Tipo	
	2015	2016
Up to 6.000	<b>20%</b>	<b>19%</b>
6.000 - 50.000	<b>22%</b>	<b>21%</b>
50.000 - Onwards	<b>24%</b>	<b>23%</b>



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## PIT: General reduction in PIT, particularly for low and middle incomes

- Final tax rates range 19% to 45% as from 2016
- Final average reduction in implementing the reform 12,5%
- Personal minimum allowance raises 400 euro per taxpayer
- 1.600.000 taxpayers will no longer generate PIT payments. Out of them, 750.000 with revenues lower than EUR 12,000 will not even be subject to PIT withholdings
- As compared to 2011, the final tax reform reduces taxation on employees whose income is below EUR 50,000

Total return from employment	Average rate 2011 on net return	Average rate 2016 on net return	% difference 2016-2014	% difference 2016-2011
12.000	2,27%	0,00%	-100,00%	-100,00%
15.000	10,24%	8,16%	-22,82%	-20,31%
20.000	14%	12,48%	-13,54%	-10,84%
30.000	18,44%	17,58%	-9,01%	-4,63%
40.000	21,26%	20,73%	-7,73%	-2,47%
50.000	24,52%	24,11%	-7,66%	-1,70%
100.000	33,48%	33,64%	-7,12%	0,47%
150.000	36,88%	37,49%	-6,76%	1,67%



## PIT: Fostering equity

- Significant increase up to 32% of the minimum living allowance for families

	PIT'14	PIT'15	Δ	
	Amounts		Absolute	%
<b>Descendants</b>	1º: 1.836	2.400	564	30,72%
	2º: 2.040	2.700	660	32,35%
	3º: 3.672	4.000	328	8,93%
	4º: 4.182	4.500	318	7,60%
<b>Children under 3 years</b>	2.244	2.800	556	24,77%
<b>Ascendants / aged &gt; 65 &gt; 75</b>	918	1.150	232	25,27%
	2.040	2.550	510	25%
<b>Disabilities &gt; 33%&lt;65% &lt;65%+reduced mov &gt; 65%</b>	2.316	3.000	684	29,53%
	4.632	6.000	1.368	29,53%
	9.354	12.000	2.646	28,29%



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## PIT: Fostering equity

### New social benefits for families and disabled people

Tax benefits for working mothers are maintained, and new types of social protection are provided for:

1. Families with dependent children with disability degree over 33%
2. Families with dependent ascendants with disability degree over 33%
3. Large families:
  - 3 or more children
  - 2 children, one of them with a disability degree over 33%
4. Special large families:
  - 5 or more children
  - 4 children, at least 3 of them born in multiple birth or coming from multiple adoption
  - 4 children and annual income not exceeding 75% of IPREM (Public Income Indicator of Multiple Effects)

Amount : EUR **1.200 per year**, cumulative for each family situation met up to a total amount of EUR 4,800. Compatible with working mother benefit





## PIT: Fostering equity

### Limit to the exemption of severance payments:

- ✓ Fairness applied to the tax treatment of severance payments
- ✓ Minimum exempt EUR 2,000 per year worked
- ✓ Higher benefits for low and middle salaries

ANNUAL WAGES	SEVERANCE PAYMENT	% EXEMPT PAYMENT 2014	% EXEMPT PAYMENT 2015
12.000	1.100	100%	100%
15.000	1.375	100%	100%
20.000	1.833	100%	100%
30.000	2.750	100%	72,72%
40.000	3.666	100%	54,55%
50.000	4.583	100%	43,64%
100.000	9.166	100%	21,82%
150.000	13.750	100%	14,54%



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## **PIT: Fostering equity**

- **Exemption of capital gains from the transfer of first residence in lieu of payment. Exemption of the Tax on the Increased Value of Urban Land is regulated as well.**
- **Negative capital gains from preferred shares can be offset against the capital gains derived from the shares exchanged.**



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## PIT: Promoting long-term savings

### ➤ New investment vehicle “Ahorro 5”

- ✓ New Long Term Saving Plans are created as an alternative to other tax-benefited saving instruments
- ✓ They may take the form of bank account or insurance
- ✓ Exemption on capital gains
- ✓ Minimum 5-year holding

### ➤ Pension plans:

- ✓ Single maximum contribution EUR 8,000 per year



## PIT: Self-employed

- **Withholdings for professional self-employed are reduced from 21% to 15%** if total income is lower than EUR 12,000 as long as more than 75% of their income derives from business activities
- **The reduced taxation (15%) for new enterprises is maintained.** This reduction was provided for in the Entrepreneurs Law. The rate is applied to the first EUR 300.000 in the taxable base. Exceeding amount taxed at 20% in the next two years (first tax year with positive tax base and the following).



## PIT: Self-employed

### ➤ Limitation of the simplified method (applicable to SMEs):

- ✓ The exclusion threshold of revenues is reduced from EUR 450,000 to 150,000 and the threshold of expenses from EUR 300,000 to 150,000.
- ✓ Activities invoicing less than 50% to individuals are excluded.
- ✓ Activities taxed at 1% rate are excluded: manufacturing (little exceptions) and construction (masonry, plumbing, fitters, carpentry, locksmith, painting.)
- ✓ The following activities will remain within the simplified method: making bread and bakery, pastry and fried masses; text printing, retailers, cafes, restaurants, kiosks, two-stars hotels or inferior category, repair workshops, passengers road transport, taxis, couriers, schools and driving schools, dray cleaning and hairdressing salons.
- ✓ Agriculture and livestock remain under this system, with their own peculiarities: exclusion threshold 200.000-150.000 and unchanged 50% invoicing.



## PIT : Typical example middle income

### Employed taxpayer with no children filing individual tax return

➤ Income from employment: EUR 25,000

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVINGS 2016- 2014	% 2016- 2014
Total income	25.000	25.000			25.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Total tax liability	4.024	3.693	-331	-8,23%	3.535	-489	-12,15%
Net payable	4.024	3.693	-331	<b>-8,23%</b>	3.535	-489	<b>-12,15%</b>



## PIT : Typical example middle income

### Family with two children filing individual tax return

#### ➤ Income from employment EUR: 25,000

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVINGS 2016- 2014	% 2016- 2014
Total income	25.000	25.000			25.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Descendants minimum	1.938	2.550	-612	-31,58%	2.550	-612	-31,58%
Total tax liability	3.544	3.183	-361	-10,19%	3.050	-494	-13,94%
Net payable	3.544	3.183	-361	<b>-10,19%</b>	3.050	-494	<b>-13,94%</b>



## PIT: EXAMPLES

### Example 1\*

**Unmarried taxpayer, no children. INDIVIDUAL TAX RETURN.  
Income from employment EUR: 12,000**

	PIT 2014	PIT 2015	SAVINGS 2015- 2014	% 2015- 2014	PIT 2016	SAVINGS 2016- 2014	% 2016- 2014
Total income	12.000	12.000			12.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Total tax liability	275	0	-275	-100%	0	-275	-100%
Net payable	275	0	-275	<b>-100%</b>	0	-275	<b>-100%</b>

\*Analysis PIT reduction with no children (falls below non-taxation threshold)





## PIT: examples Example 2\*

**Self-employed with no children filing individual tax return.**

➤ **Income from business transactions: EUR 40,000**

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVING 2016- 2014	% 2016- 2014
Total income	40.000	40.000			40.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Total tax liability	10.495	9.936	-559	-5,33%	9.447	-1.048	-9,99%
Net payable	10.495	9.936	-559	<b>-5,33%</b>	9.447	-1.048	<b>-9,99%</b>

\*Analysis PIT reduction with no children



## PIT: examples Example 3\*

**Family with one child aged more than 3 years filing joint tax return.**

➤ **Income from employment: EUR 15,000**

	IRPF 2014	IRPF 2015	AHORRO 2015-2014	% 2015- 2014	IRPF 2016	AHORRO 2016- 2014	% 2016- 2014
Total income	15.000	15.000			15.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Descendants min.	1.836	2.400	-564	-30,72%	2.400	-564	-30,72%
Total tax liability	250	46	-204	-81,60%	44	-206	-82,40%
Net payable	189	46	-143	<b>-75,66%</b>	44	-145	<b>-76,72%</b>

\*Analysis minimum for descendants



## PIT: examples Example 4\*

**Family with two children, one aged under 3. No working mother. They file joint tax return.**

➤ **Income from employment: EUR 22,000**

	PIT 2014	PIT 2015	SAVINGS 2015- 2014	% 2015- 2014	PIT 2016	SAVINGS 2016- 2014	% 2016- 2014
Total income	22.000	22.000			22.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Minimum for descendants	3.876	5.100	-1.224	-31,58%	5.100	-1.224	-31,58%
Allowance care of children under 3	2.244	2.800	-556	-24,78%	2.800	-556	-24,78%
Total tax liability	812	438	-374	-46,06%	421	-391	-48,15%
Net payable	812	438	-374	<b>-46,06%</b>	421	-391	<b>-48,15%</b>



## PIT: examples Example 5\*

### Self-employed with 40% disability filing individual tax return

➤ Income from business transactions: EUR 20,000

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVINGS 2016- 2014	% 2016- 2014
Total income	20.000	20.000			20.000		
Min. per. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Minimum for disability	2.316	3.000	-684	-29,53%	3.000	-684	-29,53%
Total tax liability	3.222	2.668	-554	-17,19%	2.553	-669	-20,76%
Net payable	3.222	2.668	-554	<b>-17,19%</b>	2.553	-669	<b>-20,76%</b>

\*Analysis minimum for taxpayer's disability



## PIT: examples

### Example 6\*

**Family with three children filing individual income tax return.**

➤ **Income from employed spouse with higher income: EUR 40,000**

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVINGS 2016-2014	% 2016- 2014
Total income	40.000	40.000			40.000		
Min. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Minimum for descendents	3.774	4.550	-776	-20,56%	4.550	-776	-20,56%
Total tax liability	7.484	7.255	-229	-3,06%	6.903	-581	-7,76%
Negative tax	-	600	-600	-100%	600	-600	-100%
Net payable	7.484	6.655	-829	<b>-11,08%</b>	6.303	-1.181	<b>-15,78%</b>

\*Analysis minimum for descendants and negative tax on account of large family



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## PIT: examples

### Example 7\*

**Married taxpayer 1 disabled child (40%) filing individual income tax return.**

➤ **Income from employment: EUR 17,000**

	PIT 2014	PIT 2015	SAVINGS 2015-2014	% 2015- 2014	PIT 2016	SAVINGS 2016-2014	% 2016- 2014
Total income	17.000	17.000			17.000		
Mín. pers. allow.	5.151	5.550	-399	-7,75%	5.550	-399	-7,75%
Minimum for descendants	918	1200	-282	-30,72%	1.200	-282	-30,72%
Minimum for disability	1.158	1.500	-342	-29,53%	1.500	-342	-29,53%
Total tax liability	1.495	1.208	-287	-19,20%	1.151	-344	-23,01%
Negative tax	0	600	-600	-100%	600	-600	-100%
Tax payable	1.495	608	-887	<b>-59,33%</b>	551	-944	<b>-63,14%</b>

\*Analysis minimums descendant+disability and negative tax on account of descendant's disability



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# Non residents Income Tax



## ➤ Lower rates for the Non Residents' Income Tax

- ✓ Thus approaching this tax to the drop of PIT general and savings tax rates
- ✓ Two-staged
- ✓ Favours attraction of individuals residing abroad

	2014	2015	2016
General tax rate	24,75%	24%	24%
Tax rate for EU and EEA incomes	24,75%	20%	19%
Tax rate for dividends, interests and gains	21%	20%	19%

## ➤ Annual lists of tax havens





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**CGIT**



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## CIT: Improvement of the Spanish companies' competitiveness

- **Tax rate is reduced:**
  - ✓ In 2015 the interim tax rate will be 28%.
  - ✓ The tax rate will be definitively confirmed at 25%.
  - ✓ 30% tax rate maintained for credit institutions.
- **The tax base is broadened to bring the effective rate closer to nominal rate.**
  - ✓ Depreciation
  - ✓ Impairment
  - ✓ Financial expense limitation remains
- **In order to maintain revenues in 2015, the following temporary measures now in force are renewed:**
  - ✓ Increased fractioned payments
  - ✓ Limited compensation negative basis
  - ✓ Limited goodwill
  - ✓ Increased fractioned payments with dividends sourced abroad.



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## CIT: Favouring financial deleveraging and balance sheets cleaning up

### ➤ **Capitalisation reserve**

- ✓ Capitalisation reserve of 10% profits of the year substitute former reinvestment deductions.
- ✓ Investment in business assets not required.

### ➤ **General limit 60% for Tax loss carryforwards (as from 2016).**

- ✓ No time limit (currently 18 years)
- ✓ All balance sheets of Spanish companies are cleaned up
- ✓ Measure comparable to taxation in the surrounding area
- ✓ Limit applicable from one million onwards (not to affect SMEs)



- **Taxation of small companies remains**
- **New equalisation reserve for SMEs:**
  - ✓ Non available to offset future negative basis in a 5-year term.
  - ✓ 10% profit of the year limited to EUR 1 million.
  - ✓ If the equalisation reserve is applied, the tax rate is 22,5%.
- **Tax rate reduction:**
  - ✓ With definitive character, the tax rate is fixed at 25% in 2016.
  - ✓ 20,25% tax rate if both capitalisation and equalisation reserves are applied.



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## CIT: Simplification and adaptation of taxation on companies to international tax treatment

- **Tax treatments of resident and non resident participations are equated.**
  - ✓ Exemption 100% dividends of participations exceeding 5%
  - ✓ Exemption 100% capital gains of participations exceeding 5%
  
- **Modification and updating of depreciation tables.**
  
- **No deductibility of equity securities impairments extended to fixed income portfolios and fixed assets.**
  - ✓ Losses are deductible only when they become definitive upon asset derecognition.
  - ✓ Deductibility of impairment losses on credit and inventories.



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## CIT: Fight against fraud and greater legal certainty

- **Possibility of deduction of tax expenses barred if tax characterisation differs among countries (BEPS – OECD).**
  - ✓ Returns from financial instruments cannot be deducted when the beneficiary abroad does not pay taxes on them (hybrids).
- **Limitation of allowances for expenses incurred in business relations with clients.**
  - ✓ Maximum 1% of turnover.
- **Rationality in rules applicable to related transactions**
  - ✓ Significant influence shall be deemed to exist with participation over 20%.
  - ✓ Simplification of documentary obligations
  - ✓ Checking efforts can be concentrated



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## VAT: Adjustment of taxation on consumption to the international tax treatment

### ADAPTATION TO COMMUNITY LEGISLATION

#### ➤ Health care products VAT rate

- ✓ Products designed for people with physical, mental, sensory or intellectual impairments, such as eyeglasses, prosthesis, wheelchairs or crutches continue being taxed at the reduced rate.
- ✓ Medical products as gauzes, bandages, first aid kits and eye patches continue being taxed at the reduced rate.
- ✓ Go up to 21%: Intermediate products for drug development, medical instruments and equipment, medical devices and pharmaceutical products.

#### ➤ New rules on the localisation of assets:

- ✓ Taxing at destination of electronic, telecommunications and radio-television services when the addressee is a private individual.
- ✓ E-books will be taxed in the country where downloaded





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# Tax Incentives



# Incentives to industrial activities and R&D and cultural investment

## ➤ **Extension of partial exemption (85%) of the tax on electricity**

- ✓ 23/06/2014 In order to improve international competitiveness of productive processes demanding intensive use of electricity, a partial exemption was provided for with respect to metallurgical, mineralogical and electrolytic processes.
- ✓ The exemption is extended to all productive processes in which the costs of electricity exceeds 50% of production costs: benefits the production of industrial gases.

## ➤ **Incentives for R&D activities**

- ✓ Companies investing more than 10% of their accounting net income in R&D will extend their percentage of deduction to 50%.

## ➤ **Incentives for cultural activities**

- ✓ Spanish cinematographic productions.
- ✓ Single tax rate for financial producer and co-producer.
- ✓ 20% on the first million, 18% on the remaining amount up to 3 million.
- ✓ Foreign cinematographic productions.
- ✓ 15% of expenses incurred within the Spanish territory, up to EUR 2,5 million.
- ✓ Expenses incurred in Spain must be at least EUR 1 million.
- ✓ Advanced refund available.



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## Stimulus to patronage

- **5 percentage points increase in deductions in PIT for donations.**
- **In order to promote steadiness in these contributions, this percentage is additionally increased in another 5 percentage points.**
  - ✓ It will be necessary to maintain the contribution for 3 years
  - ✓ Also applicable to legal persons
- **For donations up to EUR 150, a 75% deduction rate is established aimed at broadening social participation.**
  - ✓ Donations exceeding that amount will be eligible for increased deduction rates.



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# GENERAL TAX LAW



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## Fight against fraud

- Lists of defaulters to be published.
- Annual publication of tax havens
- Tax audit process: New deadlines and suspension of Statutes of Limitation in specific situations.
- Administrative assessment in evidence of tax fraud.
- Tax assessment cases are extended to smuggling offenses.
- Better precision in the indirect assessment regime.
- Imprescriptibility of the Administration's right to check tax credits derived from statute-barred tax years.
- Interruption of the limitation period of related tax obligations.