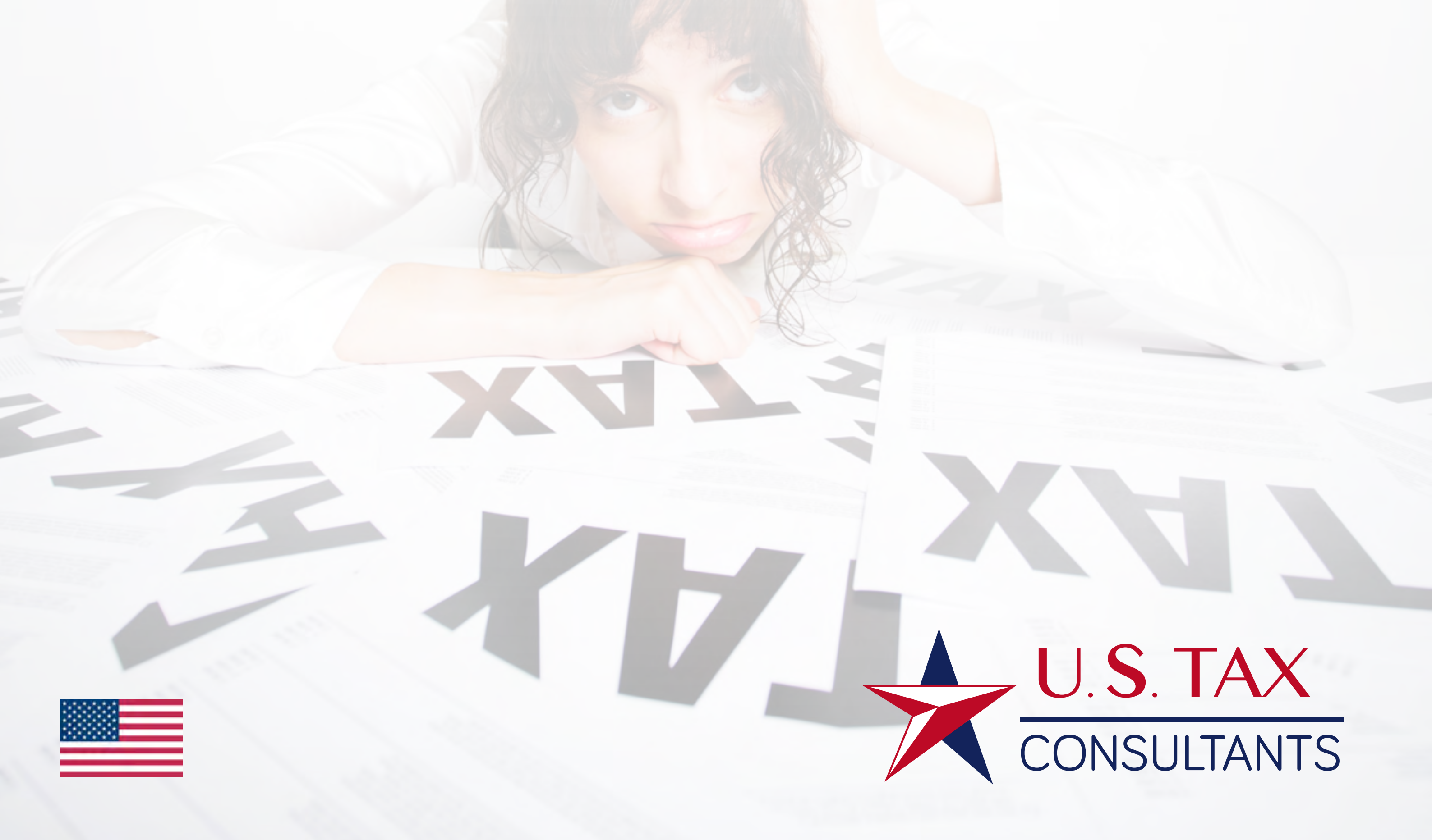
About Taxes

FISCAL OBLIGATIONS FOR EXPATS IN SPAIN



U.S. TAX CONSULTANTS

What is a Tax Resident in Spain?

In Spain, a tax resident must comply with various tax obligations. The main taxes that must be paid depend on their personal, professional and financial situation.

Tax residency and immigration residency are different legal concepts, although in some cases they may be related, but it is very important not to confuse them.

Tax residency determines in which country a person must pay taxes on their income, assets and economic activities and is regulated by the country's tax laws, in Spain by the Personal Income Tax Law (IRPF Ley 35/2006 de 28 de noviembre de 2006) and international agreements. It is possible to be a tax resident of Spain without being a resident by immigration and this is the case for people with temporary visas that involve long stays. No specific document is required to prove tax residency, although the Spanish Tax Agency (AEAT) may often request proof such as registration certificates, rent or mortgage receipts or pay slips, employment contracts or economic activity reports.

Residence by immigration establishes the legal right to reside and remain in a country and is regulated by immigration legislation, in Spain by the Immigration Law and depends on legal immigration criteria, such as the type of visa or residence permit, the reason for the permit: work, studies, family reunification, investments, etc., or compliance with legal requirements: financial solvency, employment contract, etc. Of course, you can be a resident by immigration without becoming a tax resident, this happens when you spend less than 183 days in Spain, even if you are a Spanish citizen.

What criteria are there to be considered a Tax Resident in Spain?

In Spain, a person is considered a tax resident if they meet any of the following criteria established in the Personal Income Tax Law (Article 9 of Law 35/2006):

According to the criterion of permanence in Spanish territory, if they have remained in Spain for more than 183 days in the same calendar year, regardless of whether they are consecutive or not. Sporadic absences are considered time spent in Spain, unless you can prove that you have your tax residence in another country, so if you work temporarily abroad, but maintain your home and family in Spain, you are considered to continue being a tax resident in Spain.

According to the criterion of economic interests, you are considered a resident if the main core of your economic activities or property interests is in Spain, for example, if you have the majority of your investments, properties or business activities in Spain, even if you spend less than 183 days there.

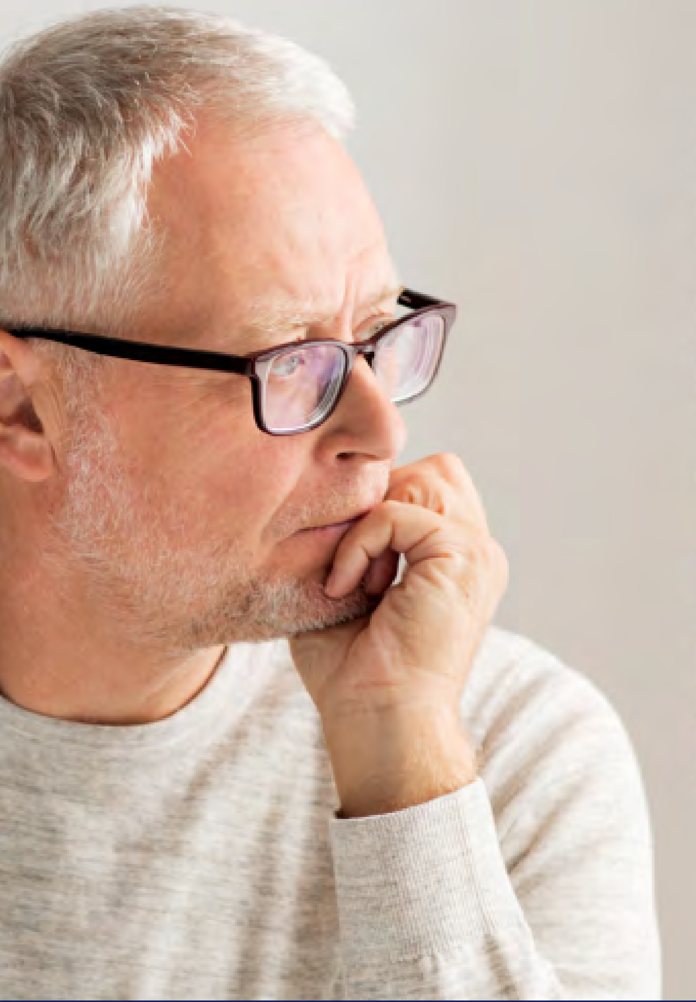
And finally, based on the criterion of habitual residence of the family, if the spouse is not legally separated and the minor children habitually reside in Spain, it will be presumed that he or she is also a tax resident, unless you prove otherwise.

There are some special cases such as Spanish officials abroad, that is, diplomats, consuls and other officials posted outside Spain are considered tax residents in Spain.

There are special tax regimes, such as those covered by the Beckham Law, Special Tax Regime for Posted Workers in which they are considered non-residents despite living in Spain.

If you meet the requirements to be a tax resident in Spain, but also in another country, the double taxation agreement between both countries will determine in which one you have the obligation to pay taxes. The factors that usually decide this are the permanent address, the place where you have a permanent home, the center of vital interests, the country where your family or main activities are, habitual residence, the country where you spend the most time and finally the nationality.

Modelo 100 AEAT



Do I have to file?
Must I pay taxes in both countries?
Who can prepare the 100 and 1040 for me?

More answers...
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MODELO 100

Individual Income Tax Return - Resident in Spain

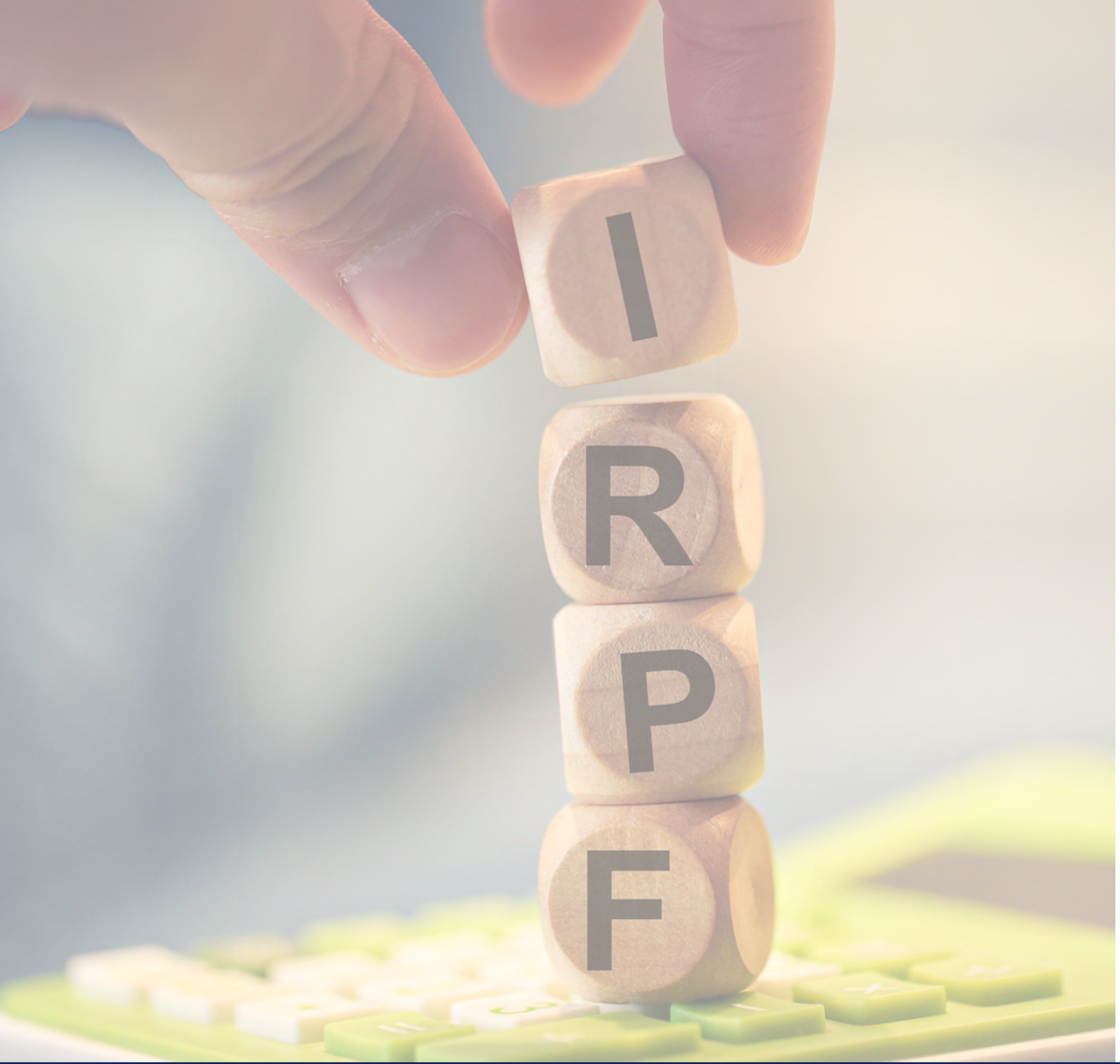
This is a direct tax levied on the worldwide income earned by individual's resident in Spain. This means that they are subject to tax on all income generated in the tax period, regardless of where it is generated or paid.

How do you file the IRPF?

To file a tax return in Spain you need to log in to the AEAT computer, so you need to validate yourself which requires to have last year tax return, the IBAN from you bank account and some different numbers/codes from the Spanish ID document. Alternative you might have a Digital Signature or PIN Code.

Once you are login you can check all your fiscal data which corresponds to all necessary data to fill up the tax return with origin in Spain. Normally you need to add income from other sources.

The AEAT does all calculations of the Individual Income Tax Return which will depend on the general taxable base and saving taxable base. You will be taxed in Spain on your worldwide income every natural year, and it also includes all your U.S source of income: private pensions, annuities and/or SS Benefits from abroad.



When do you file the IRPF?

The tax season in Spain starts around April 10th and the deadline is June 30th. You must file the IRPF only if your gross income is higher than 22.000€ in the fiscal year, received from only one payer; or if you received income from more than one payer and the amount received from the second and other payers is more than 1.500€ and the annual gross income is over 14.000€. Payments must be subject to IRPF withholding, so payers who make payments not subject to IRPF withholding for work income or economic activities are not included in these calculations.

Tax rates

The following are the basic Spanish tax rates on employment income. Since tax rates in Spain are not uniform across the country, your total liable tax will be a calculation of the national's general tax rates plus the relevant regional tax rates.

Spain's tax rates in 2022 are as follows:

- Up to €12,450: 19%
- €12,450–€20,199: 24%
- €20,200–€35,199: 30%
- €35,200–€59,999: 37%
- €60,000–€299,999: 45%
- More than €300,000: 47%

Income tax on savings is levied at the following rates:

- 19% for the first €6,000 of taxable savings income
- 21% for the following €6,000–€50,000
- 23% for the following €50,000–€200,000
- 26% for any savings income even more than €200,000

Those working abroad will have a reduction on the gross annual salary of approximately €60,000 and if only earned income is considered.

Modelo 151 IRPF Special Tax Regime: Beckham & Digital Nomads

The expatriate regime, better known as the Beckham Law, is a special tax regime for those foreigners who work and have tax residence in Spain, under this regime, foreign workers who move to Spain can benefit from a fixed 24% tax rate on income up to €600,000, after which it is taxed at 47%. This applies to all employment income for a period of 5 years, and foreign income is not taxed in Spain unless it is employment income. This special regime is advantageous if the individual's income exceeds €60,000.

The tax return will be filed in Modelo 151, with the same filing dates as the regular IRPF. On Form 151, taxpayers must declare all employment income earned since acceptance into the regime, as well as income from rents or imputed income from properties they own in Spain, and dividends of Spanish origin.

Taxpayers under this regime are exempt from filing Form 720 (foreign assets) and Form 714 (wealth tax declaration).

- aving income and capital gains: 19%

Notwithstanding, different rates may apply for UE/EEA citizens or in case of International Tax Treaties.

Modelo 210 Personal Income Tax for Non-Resident in Spain

Individuals who are considered as non-tax resident of Spain, are subject to taxation in respect of their Spanish source income (i.e., income generated within Spain).

Non-resident individuals must file a personal income tax return in respect of each type of income they may obtain, and different deadlines will apply, as follows:

Tax returns showing a tax payment.

1. Earned and passive income, in general terms, the deadline for filing is by the 20th of April, July, October, and January, in relation to the income that occurred in the previous quarter of the same calendar year.
2. Income derived from urban properties (excluding primary residence) not rented out. The deadline for filing is from January 1st to December 31st of the year following the year of assessment.
3. Income derived from rented properties. The deadline for filing is from January 1st to 15th of the following natural year.
4. Sales of properties located in Spain. The deadline for filing is four months from the date of sale, no matter whether the return shows a payment or a refund.

Tax returns showing a tax refund.

Except for returns corresponding to the sale of a property located in Spain, the deadline for filing will be during four years from the date of assessment. It is mandatory to have a certificate of residence in the corresponding country.

Tax rates for individuals who are non-tax resident of Spain are the following:

- General: 24%
- Saving income and capital gains: 19%

Notwithstanding, different rates may apply for UE/EEA citizens or in the case of International Tax Treaties.

W E A L T H   T A X

Modelo 714 Wealth Tax

Individuals who are tax resident of Spain will be subject to the Net Wealth Tax, so, the sum of assets and rights minus debts, in respect of their worldwide net worth (personal obligation), regardless of where it is located.

People or entities that meet the following requirements are required to submit the Wealth Tax Modelo 714.

- The value of the assets and rights is greater than 2,000,000€.
- The tax amount of Modelo 714 is the value of the assets minus deductions and/or bonuses.
- If the value of rights and assets does not exceed 2,000,000 euros, the declaration must be submitted if the tax base, the net assets, does exceed the minimum exempt. In general, this figure is 700,000€ (habitual housing up to 300,000 euros is excluded). However, this data varies in some autonomous communities:
    - Valencian Community: 600,000 euros.
    - Extremadura y Cataluña: 500,000 euros.
    - Aragon: 400,000 euros

Once you have established the value of the taxable goods and rights you need to exclude the investments, such as pension plans or insurances, and the 300,000€ bonification of your primary residence

Keep in mind that Modelo 714 does contemplate works of art or antiques, as well as business assets.

Finally, you will get the amount to be paid, which depends on each Autonomous Community: Madrid and Andalusia have a general bonus of 100% and Galicia of 50% for 2023. Cantabria and the Region of Murcia have announced that they want to give a 100% bonus, but they've not approved yet. In this line, when calculating the total assets that you owe at the end of the year, you will have to value the cryptocurrencies at December 31 and add said value to the rest of the assets that you have (shares, real estate, accounts currents, land, funds, etc.), to see if you have to file the Wealth Tax and pay for it.

It is important to remember about the Solidarity Tax (Modelo 718) adopted for 2022 and 2023 on your worldwide assets, like the Wealth Tax. At this point we do not know if it will be in place in 2024.

MODELO 720/721

Report of all Asset and Cryptocurrencies Abroad

This form must be filed by all Spanish residents owning assets abroad, only if they are over the limits described below. It is required to file this form every year before March 31st.

The Form has three different blocks:

1. Information on each account should include the balance of these accounts on December 31st, the average balance for the last quarter of the year and the date of opening. Also, if you are account holder, authorized.

   a. Accounts in financial institutions abroad, which include current accounts, savings accounts, term deposits, credit accounts.

   b. Holders and authorized holders, who have ceased to be during the year, must indicate only the balance of the day ceased to be holders or authorized holders

2. Stocks, bonds, values, financial rights, and savings in insurance companies, deposited, managed or obtained abroad:

   a. Securities or rights located overseas represent participation in any type of legal entity; values located overseas represent representative of the transfer of capital to third parties or provided for its management or administration to any legal instrument, including trusts though lacking legal personality, capable of acting in the course of trade.

   b. Shares and participation in share capital or equity funds of collective investment institutions located abroad.

   c. Life insurance (savings not risk) or pensions or annuities, whose insurance companies are located overseas.

3. All types of Real Estate and rights over Real Estate abroad, which include ownership of the property, actual use or enjoyment and bare ownership rights over real estate, timeshares, timeshares shift, part-time property or similar formulas on real estate, other rights in rem over real estate.

Modelo 720 must be filed for the first time if any of these blocks exceed the amount of 50,000€ and only the block in which the amount is exceeded and the consecutive years if either there is an increase of 20.000€ on any of the different blocks or you close an account during the year, any of the accounts reported before.

Cooperation with other States

The Royal Decree approved transposes the Community directive on administrative cooperation in the field of taxation. Thus, reinforcing cooperation in the exchange of information between countries needed for the liquidation of taxes.

Among other issues, is attributed to the tax agency competition to formulate requests for mutual assistance to other States or international organizations. This provides legal security to be achieved greater agility in the process of mutual assistance.

And already a few years ago the tax agency began to provide tax information for citizens of the EU to their respective countries through the Form 299 which is filled by Spanish financial institutions, collected and processed by Tax Authority.

The Government aims to deepen in the coming months in this type of agreements for the exchange of information, both to improve the collection of taxes, and to enhance the fight against tax fraud. The ETE FORM (Survey of Transactions with Foreign Countries) is an informative return to be filed before the Bank of Spain.

BANK OF SPAIN (ETE)

and other informative Forms before the Spanish Authorities

Individuals and legal entities residents in Spain that carry out operations/ transactions with non-residents or maintain assets abroad for a value greater than 1,000,000 euros are required to submit this form.

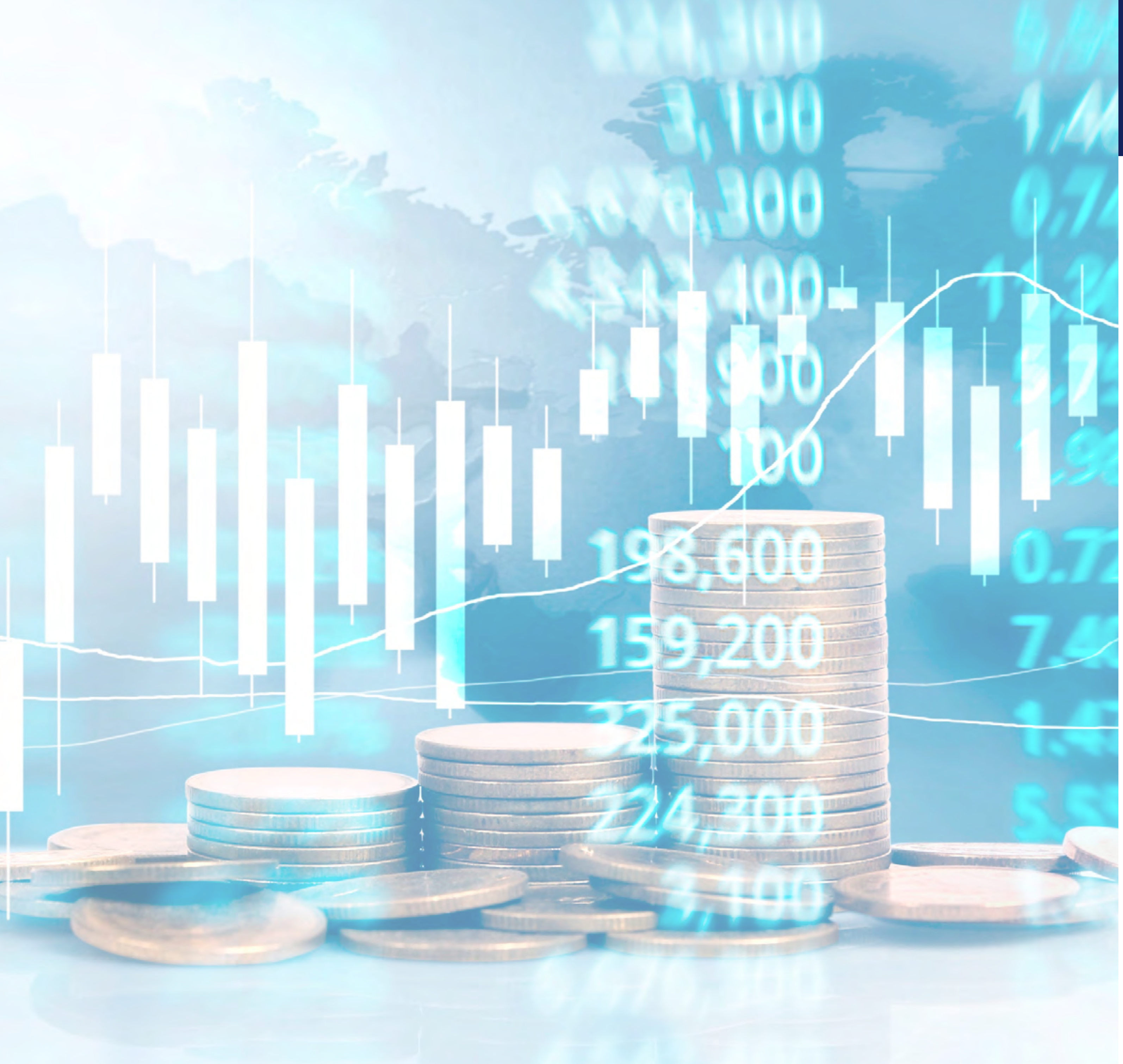
It is necessary to report on the values and variations of the value of assets, as well as the operations with non-residents regardless of their nature and regardless of how the operations take place.

Annual submission will be required and must be done no later than January 20th following the year of assessment, provided that the number of transactions during the immediately preceding year or the values of assets and liabilities on December 31st, were less than 100,000,000 euros. If this is not the case, the submission deadlines may vary and have a higher recurrence.

Finally, there is an obligation for Spanish residents when there are foreign partners or investments abroad, or also for holders of shares in foreign companies or branches, as well as for Spanish companies, in whose shareholders a foreigner participates and makes some foreign investment in Spain.

Such situations lead to the obligation to file forms D4, D6, D8, D5A, D5B, D1, etc. to the General Directorate of Trade and Investments.

The deadlines vary depending on the form that needs to be completed.



MODELO D6

Report on investments abroad

Form D6 is an annual declaration for information purposes of Spanish investments made abroad in companies listed on the stock exchange or organized market. They will be subject to communication, if you are a natural person and/or legal entity resident in Spanish territory and if, on 31 December, you held any open position in any security deposited abroad that met the requirement of holding a percentage equal to or greater than 10% of the capital of the company, or of the voting rights of the company in which you have invested.

Form D6 must be submitted between January 1st and 31st, that is, throughout the entire month of January, to the Registry of Spanish Investments Abroad of the Ministry of Finance. Submitting it in a timely manner guarantees that you will not be exposed to the various penalties and fines established by the sanctioning regime of Law 19/2003. In D-6, deposits and capital flows must be declared:

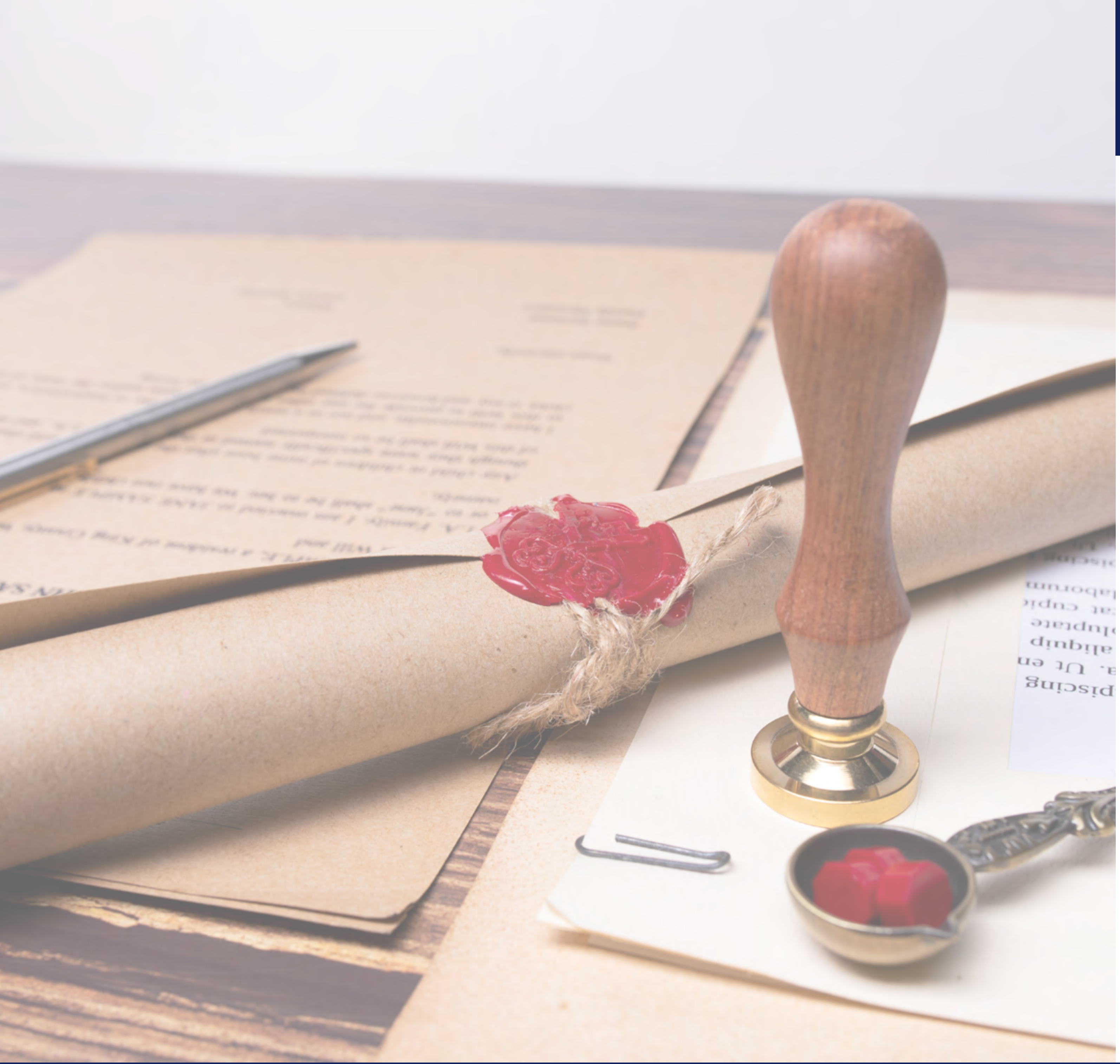
Declaration of deposits: According to this, you must declare only for having securities that are listed in entities outside Spain. If, for example, you have Spanish shares, but they are in a foreign broker, you must declare them as well. This includes ETFs as well as investment funds.

Declaration of flows: You must declare the flows for each investment or liquidation that has been made in companies not resident in Spain if 10% of the share capital was reached or if that percentage had already been reached.

ADDITIONAL OBLIGATION

for self-employed people and entrepreneurs

- **Value Added Tax - VAT (Modelo 303 IVA).** VAT is an indirect tax levied on the consumption of goods and services. This means that it is not paid directly on income or property, but on the value added at each stage of production, distribution and sale of a product or service. Ultimately, it is the end consumer who bears the cost of VAT. It is filed quarterly, and the annual summary is Form 390.
- **Modelo 130 and 131 Quarterly payments of personal income tax:** Are advance payments of the tax that a taxpayer must pay throughout the fiscal year to prevent the total tax payment at the end of the year from being excessive. Quarterly report on income and expenses of the self-employed..
- **Modelo 115:** Withholdings and payments in advance. Income or returns from the leasing or subleasing of urban properties. And Modelo 180 annual summary.
- **Modelo 111:** Withholdings and payments in advance. Income from work and economic activities, prizes and certain capital gains and imputations. And Modelo 190 annual summary.
- **Modelo 349:** Report on intra-community operations (if applicable).



INHERITANCE & GIFT TAX

Inheritance tax is imposed when there is a transfer of assets and/or rights from one natural person to another, in this case 'mortis causa' (due to death) and free of charge. This is what we know as an inheritance. Any citizen is also obliged to pay a tax when there is a donation 'inter vivos' (between living persons), the so-called donation tax.

The Inheritance and Gift Tax –this is how it appears in tax legislation– is: progressive, that is, the greater the amount inherited, the higher the tax rate; personal, that is, it is paid by the person who receives the inheritance; direct, which falls on the taxpayer's assets, not on consumption.

In Spain, according to the data from Consejo General del Notariado, the number of inheritances and donations doubled in 2021 due to the pandemic. In 2020, the number of inheritances waved exceeded 44,000. The main reasons were not being able to assume the debts of the deceased or not being able to pay the inheritance tax.

Any increase in assets obtained free of charge by donation, inheritance or legacy is subject to this tax. This transfer of assets and/or rights includes life insurance, provided that the person who has died is the insured.

It is important to note that in the case of life insurance, a partial settlement of the tax can be requested separately for life insurance and thus be able to have access to its amount in advance and be able to use it, for example, to settle the rest of the tax obligations.

The Transfer Tax is managed by the Autonomous Communities, which establish tax rates and bonuses.

OTHER INDIRECT TAXES

Depending on your situation, you may be required to declare and pay other indirect taxes:

The IBI - Real Estate Tax - is a local tax levied on the ownership, title or user of real estate (such as homes, commercial premises, land, etc.). This tax is managed by the municipalities in Spain and is one of the main sources of municipal income.

The person responsible for paying the IBI is the owner of the property as of January 1 of the current year. This means that if you sell a property, you will be the one who must pay the IBI for that year, even if you sold it after that date. In some cases, the buyer and the seller can reach private agreements to share the cost, but from a legal point of view, payment corresponds to the owner at the beginning of the year.

The payment schedule for the IBI varies depending on the municipality, since each municipality has the autonomy to establish the deadlines. In general, an annual receipt is sent, and it can be paid in a single payment or divided into several installments, depending on the facilities offered by the municipality.

If the tax is not paid on time, late payment surcharges or interest may apply.

The amount is determined from the cadastral value of the property, which is an official estimate of its value set by the Real Estate Registry. A tax rate is applied to this cadastral value, which varies depending on the municipality. Rural property has a rate between 0.3% and 0.9% and urban property can have rates between 0.4% and 1.1%. Capital gains on the sale of a property refer to the increase in value experienced by the land associated with the property between the time it was acquired and the time it is sold. In Spain, this concept translates into two main taxes:

Municipal Capital Gains Tax (Tax on the Increase in Value of Urban Land, IIVTNU) Plusvalía Municipal.

It is a local tax that taxes the increase in the value of urban land during the time it has been owned by the seller. Generally, the seller of the property is the one who must pay this tax, since he is the one who obtains the profit from the increase in the value of the land, however, in the case of inheritances or donations, it is the beneficiary (heir or donee) who must assume it.

Payment must be made to the corresponding town hall within 30 business days following the sale and in the case of inheritances, the period can be extended to 6 months, extendable to 1 year.

The calculation is based on the cadastral value of the land of the property (construction is not included), on the number of years that the seller has been the owner, by a coefficient established by the town hall that reflects the increase in the value of the land based on the years and the tax rate (also determined by the town hall).

Capital gains in personal income tax.

This is a state tax levied on the profit obtained from the sale of a property. This tax is part of the Personal Income Tax (IRPF), modelo 100.

The seller is the one who pays the capital gain from the sale, that is, if he sells for a price higher than the purchase price. It is declared in the income tax return corresponding to the year in which the sale was made, generally between April and June of the following year.

You can be exempt from paying this tax if you reinvest the money obtained in your habitual residence, and those over 65 years of age who sell their habitual residence are exempt from paying taxes on this gain.

Property Transfer Tax (ITP)

The Tax on Property Transfers and Documented Legal Acts (ITP-AJD) is a tax that taxes different economic operations, including the purchase of second-hand real estate. It is managed by the autonomous communities of Spain.

The ITP is paid when a second-hand property is purchased (i.e. one that has already had a previous owner). If the property is new (first transfer), instead of the ITP, VAT is paid and, additionally, the Documented Legal Acts (AJD) component. The person responsible for paying this tax is the buyer of the property. It cannot be transferred to the seller.

The ITP must be settled within 30 working days from the signing of the deed of sale before a notary. Payment is made at the corresponding branch of the Treasury Department of the autonomous community where the property is located.

The amount of the ITP is calculated by applying a percentage (tax rate) to the real value of the property. This value usually coincides with the value recorded in the deed or the reference value set by the Land Registry (according to the rules applicable from 2022).

The percentage varies according to the autonomous community and, sometimes, according to the characteristics of the buyer or the property.

Differences between ITP and IVA:

Tax on Property Transfers and Documented Legal Acts (ITP)	Value Added Taxes (IVA)
Tax on the purchase of second-hand properties	Tax on the purchase of new properties. In this case, the buyer pays the VAT directly to the seller, who pays it to the Treasury

Treaties with Spain to avoid the double taxation.

Expats from other countries and tax residents in Spain, should check if they have a treaty to avoid the double taxation. In general, the treaties will reflect that an individual must file and pay taxes in the country of residency. The agreements, based on the country of residence of the taxpayer, lists some types of income and the country where the income will be taxed or exempt from taxation.

Except in the case of US Citizens that they must also file the Individual Tax Returns based on their Nationality, reporting worldwide income regardless of the country they live in and the origin of the income. Convention for the avoidance of double taxation between Spain and the U.S. (Feb. 20, 1999).

Spain has agreements with more than 90 countries:

- Europe: France, Germany, Italy, Portugal, United Kingdome, Switzerland.
- America: U.S.A., Canada, Mexico, Brazil Argentina, Colombia, Chile....
- Asia: Japan, China, India, South Corea.
- Others: Australia, Marruecos, Rusia, South Africa.

You can consult the complete list and the official texts of the CDI on the website of the Spanish Tax Agency: Agreements to avoid double taxation.

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