



DOING BUSINESS IN SPAIN 2023

GPM auditors

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1. GENERAL INFORMATION

1.1. Government

Spain is a sovereign state, member of the European Union. According to the Spanish Constitution, Spain is a democratic state, in the form of a parliamentary monarchy. The current king, acting as head of state is King Phillip VI. Each presidency lasts four years, the current president is Pedro Sánchez, member of the “Partido Socialista Obrero Español” (Spanish Socialist Worker’s Party), who began his second term by the beginning of 2020.

At a territorial level, Spain is divided in to 17 Autonomous Communities, and its capital is in Madrid. The official currency is the Euro since its introduction.

In accordance with the Constitution, and according to its article 3.1, “Castilian is the official Spanish language of the State. All Spaniards have the duty to know it and the right to use it”. According to article 3.2, “The other Spanish languages shall also be official in the respective Autonomous Communities in accordance with its Statutes”.

Catalonia is an autonomous community, with a Statute that embeds the rights of the Catalans. The current president of the government of Catalonia is Pere Aragonès, member of the “Esquerra Republicana de Catalunya” (Republican Left of Catalonia).

In accordance with Article 2 of the Spanish Constitution, Catalonia is recognized as a historical region, and thus, according to Article 5 of the Catalan Statute: “The self-government of Catalonia is based on the [...] recognition of the Generalitat’s unique position in relation to civil law, culture, the projection of these in the area of education and the institutional system [...]”. Catalonia’s own language is Catalan, and as such, “Catalan is the language of normal and preferential use in Public Administration bodies and in the public media of Catalonia and is also the language of normal use for teaching and learning in the education system”. In Catalonia, Catalan is the co-official language along with Castilian.

1.2. Physical and geographical characteristics

Spain has an extension of 505.370 Km², being the fourth largest country in the continent, after Russia, Ukraine and France; and it is the second in the UE after France. Catalonia has an extension of 32.113Km², begin the sixth largest community in Spain.

The peninsular territory shares land borders with France and with Andorra to the north, with Portugal to the west and with the British territory of Gibraltar to the south. In its African territories, it shares land and sea borders with Morocco. In addition, Ceuta and Melilla, the Balearic Islands in the Mediterranean Sea, the Canary Islands in the Atlantic along with a series of islands and islets complete the set of territories off the peninsular coasts. Catalonia, individually, shares land borders with the communities of Aragon and Valencia, and France and Andorra.

The geographical position of Spain is seen as a key market from a geopolitical point of view, as the main link between Europe and North America, coupled with common history shared with Latin American countries. It is also the gateway to the Mediterranean and European country closest to the African continent.

1.3. Demographic situation

With a population of 48,345,223 people, Spain is located in the position 30 in the table of population and has an average population density of 92 habitants per Km². The Largest cities by population are Madrid with 3.2M inhabitants, Barcelona with 1.6M and Valencia with 0.7M.

Spain is the number 15 if we consider its GDP. Its public debt in 2023 was 1,568,743 million euros, which represents 111,2% of GDP. The debt per capita is 32,226 euros per inhabitant.

The GDP per capita was in the year 2023 of 33,090 euros, which is located in the position of 32 of the 192 countries in the ranking of per capita GDP.

In relation to the active population, it is now 21.1 million, and the rate of unemployment is, in July 2023, at 11,6%, with downward trend that started in the year 2012.

In the last annual rate of change of the CPI published in Spain is from September of 2023 and was 3,5%.

In regard to Catalonia, it is the second most populated community, after Andalusia, with a population of 7,977,132 in June 2023.

If we consider GDP, Catalonia is the first economy of Spain, with a GDP of 229.418 million euros. In regard to GDP per capita, Catalonia's GDP is higher than that of Spain, thus reflecting its higher standard of living compared to the rest of communities in Spain.

The rate of unemployment in Catalonia is 3 points lower than that of Spain, at 8,4% of the active population, it is one of the communities with the lowest unemployment rates.

2. SETTING UP A COMPANY IN SPAIN

2.1. Investment options

Once the foreign investor has decided to operate or invest in Spain, there are several alternatives.

Constitution of Spanish Society with its own legal personality	There are several types of entities to invest in Spain, being, the most used the Joint-Stock Companies (S.A.), and mainly, the Limited Liability Companies (S.L.).
Limited Liability Entrepreneurial	Development of the activity directly by physical person in the event of a comply with certain requirements.
Branch office or permanent establishment	These figures lack legal personality so that its activity and its legal responsibility will always be directly linked to the foreign company.
Joint ventures	Allow sharing the risk and combine resources and experiences.
Without constituting an equity or associate with other already existing entities or without physically establish an operations centre in Spain	The alternatives are the following: <ul style="list-style-type: none"> - Distribution Agreement - Operate through an agent. - Operate through a broker. - Establishment of a franchise
Asset acquisition	Acquisition of real estate located in Spain or business acquisition.
Risk Capital	Investment in risk-capital entities.

Each of these commercial alternative offers several advantages that must be verified, both from the legal point of view as a prosecutor, with its potential drawbacks.

2.2. Differences between SAs and SLs

The most common corporate forms provided by the Spanish commercial legislation are the Joint-Stock Companies “Sociedad Anònima (S.A.)” and the Limited Liability Company “Sociedad Limitada (S.L.)”.

The main differences between Joint-Stock Companies and Limited Liability Companies are the following:

	S.A.	S.L.
Minimum capital	€60.000	€3.000
Outlay in the constitution	A minimum of 25% and the share premium, if any.	In its entirety.
Contributions	Required report of the independent expert on the non-cash contributions.	Not required report of the independent expert on the non-cash contributions, while the founders and partners are jointly and severally liable for the authenticity of the non-cash contributions made.
Actions/shares	Are securities. You can issue bonds and other securities that acknowledge or create a debt, including obligations convertible into shares.	Are not securities. You can issue bonds and other securities that acknowledge or create a debt.
Transfer of actions/shares	Depends on its representation (account, entries, book, etc.) and their nature (or bearer). As usual, are freely transferable, except statutory provision.	Must be recorded in a public document. Usually, S.L. shares will not be freely transferable (unless they are purchased by other partners, ascendants, descendants or companies of the same group). Thus, except statutory provision to the contrary, the law provides for a right of first refusal in favour of the remaining partners or of society itself, in the event of a transfer of shares to a person other than those indicated.
Modification of Statutes	The directors or shareholders, as the case may be, making the proposal must make a report.	Does not require report.
Place of holding of the General Meeting	Governing bylaws. If nothing said, in the municipality of the registered office.	
Quorum of attendance to the General	Different quorums and majorities in function of first or second call and the content of the agreements. These may be elevated by statutes.	Different majorities are set according to the contents of the agreements, which may be elevated by the statutes.

Board and majorities		
Right to attend shareholders meetings	You can require a minimum number of shares to attend the General Meeting.	You cannot restrict this right.
Number of members of the Board of Directors	Minimum: 3. There is no maximum limit.	Minimum: 3. A maximum of 12 members.
Term of office administrator	Maximum 6 years (4 years at listed companies). Re-eligible for periods of the same duration.	May be undefined.
Issuance of obligations	Emissions of obligations may be used as a means to raise funds. You can issue or guarantee obligations convertible into shares.	<p>Emissions of obligations can be used as a means to raise funds, while the total amount of emissions shall not be more than double of the own resources of the company, except that the issuance is guaranteed with mortgage, with a pledge of values, with public guarantee or a guarantee of solidarity credit institution.</p> <p>In case the issue is guaranteed with collateral solidarity of mutual guarantee society, limit and other conditions of the guarantee shall be determined by the ability of the Company at the time of loan, in accordance with their specific regulations. You cannot issue or guarantee obligations convertible into shares.</p>

Any citizen or foreign legal person may be a member of a Spain society whenever you request the NIE or NIF.

By the same token, any citizen or foreign legal person can also be administrator of a Spanish society, with the same requirement to apply for the NIE or NIF.

2.3. Legal Proceedings

The ordinary formalities of constitution and the costs incurred are similar in both social and are detailed in the following table.

PROCEDURES TO SET UP A MERCANTILE COMPANY

REQUEST	APPLICABLE TO ANY S.A. OR S.L.
1. Certificate of designation	Request to the Central Mercantile Register by the person concerned or his or her authorized (you can include up to 5 alternative social denominations). The Central Mercantile Register will issue a certificate of designation for the new society. The denomination has a duration of six months from the date of issue.
2. Provisional N.I.F. Request	Before the AEAT using the model 036
3. Opening bank account	Opening a bank account in the name of the entity for the disbursement of the social capital. Once the disbursements by the founding partners, the bank must issue the certificates of disbursement.
4. Act of manifestations of real ownership	The founding partners should provide a notary act of manifestations of the beneficial owner in compliance with the Law 10/2010, of 28 April.
5. Grant writing before a notary	<p>Before a notary public, the constituent partners awarded public deed indicating and including:</p> <ol style="list-style-type: none"> 1. - Accreditation the identity of the founding partners. 2. - Manifestation on the holder. 3. - Justification of the contribution and the means of payments of the same. 4. - Certificate of designation for the use of the name issued by the Mercantile Register. 5. - The Articles of Association of the company. 6. - Identification and acceptance of the directors of the company. 7. - Declaration of the foreign investment before the Registry of Foreign Investment of the Directorate General of Trade and Investment of the Ministry of Economy, Industry and Competitiveness. 8. - Identification of economic activity code that describes the activity according to the

	<p>National Classification of Economic Activities (CNAE).</p> <p>9. - The writing must be granted within three months following the issuance of the certificate of title issued by the Central Mercantile Register.</p>
6. Application for registration in the Register of the registered office	The deed of incorporation shall in the form of telematics by the notary or in person by the interested party.
7. Term of qualification and Registration Register	Fifteen (15) days from the date of submission of the deed unless just cause, in which case, the period shall be thirty (30) days.
8. Obtaining final N.I.F.	By presenting before the AEAT a new model 036 and the original copy of the deed registered in the Mercantile Registry.
9. Census procedures for tax purposes and labour	<p>Incorporation to Tax Economic Activities: presentation of the Model 036. Societies that will indicate the description of the activity that will develop and the reason you are exempt from this tax.</p> <p>Incorporation to Value Added Tax (I.V.A.)</p> <p>Obtaining the license of opening/operation or sufficient qualification for the exercise of the activity outside the Town Hall.</p>

3. THE TAX SYSTEM

The Spanish tax system is competitive and modern. The Spanish Tax Agency (AEAT), which has been recognized as one of the most innovative and efficient tax agencies in the world and it is one of the vanguard European tax agencies.

This tax system is composed of three types of taxes: *impuestos* (true taxes), *tasas* (dues and fees) and *contribuciones especiales* (special levies).

At the territorial level there are three levels of taxation in Spain (State, regional and local levels).

In Spain there are two types of State taxes:

- Direct Taxes:
 - Corporate Tax (IS)

- Income Tax (IRPF)
- Tax on the income of non-residents (IRNR)
- On Assets (affect only physical people)
- Wealth Tax (IP)
- Tax on inheritance and donations (ISD)
- Indirect Taxes:
 - Value Added Tax (VAT)
 - Tax on Patrimonial Transfers and Documented Legal Acts (ITP and AJD)
 - Special taxes
 - Customs duties
 - Tax on insurance premiums

Because of its importance, it is necessary to refer to the formal obligation of information assets and rights abroad whose violation affects the personal income tax corporation tax.

3.1. Corporate Tax

Corporate Tax is regulated by Law 27/2014, of 27 November, the Tax on Societies and the Royal Decree 634/2015, of July, which approves the Regulation on Corporation Tax.

The fundamental fact to determine whether or not to apply tax to an entity is resident for tax purposes. It is considered that an entity is resident in Spain for tax purposes if it meets any of the following requirements:

- That is incorporated under the laws of Spain.
- Which has its registered office in Spain.
- Which has its registered office or place of effective management in Spain.

The main aspects to take into account of the tax are the following:

a) Taxable base

There are three regimes for the determination of the tax base:

- The direct estimation regime.
- The regime of indirect estimation.
- The objective assessment scheme.

The regime that is generally applicable is the direct estimation, in which the tax base is defined as the difference between revenue and expenditure for the period. It is estimated on the basis of the accounting result. However, the application of the accounting principles can cause the accounting result can be understood as not representative of the real capacity of the passive subject, so that the same must be corrected through the application of the fiscal principles laid down in the regulations of the tax.

In general, expenses relating to the business are deductible if they are properly accounted for and supported and served to the principles of imputation.

b) International Tax Transparency

In the Corporate Tax is taxed by the “source of income”; however, the international tax transparency regime forced to pay taxes, not by actual income obtained by the taxable person, but by the obtained by a non-resident entity owned by the taxable person, in case of certain circumstances. In short, this is a regime of “attribution” of income.

Is applicable when:

- The taxable person (Spanish Society), alone or in conjunction with persons or entities connected, has a stake equal to or greater than 50% in the capital, own funds, the results or the voting rights of the non-resident entity.
- The tax paid by the non-resident tax (or similar) for the net income attributable is less than 75% of what they would have been in accordance with the rules.

c) Valuation at market prices

General rules, assets are valued in accordance with the criteria laid down in the Code of Commerce. However, in general, changes in value caused by applying the fair value will not have tax purposes while not to be charges in value caused by applying the fair value will not have tax purposes while no to be charged to the profit and loss account.

d) Deductibility of financial expenses

In Spain have traditionally been deductible financial expenditure, although from a few years ago, has established a rule of general limitation to the deductibility of financial expenses.

In particular, the standard establishes a rule of general limitation to the deductibility of financial expenses.

As well, are not deductible net financial expenses that exceed the limit of 30% of operating profit (EBITDA) of the exercise, defined as net financial expenses The financial excess of expenditure over income arising from the transfer to third parties of own capital earned in the tax period; however, in any case, be deductible expenses net of tax period for an amount of 1,000,000 euros.

Non-deductible financial expenses resulting from the application of this limit will be deductible in the following tax periods, together with the corresponding tax period, with the same limit.

e) Value adjustments

Depreciation: depreciation is only a tax-deductible expense if the depreciation is effective and is accounted for (with certain exceptions).

There are several general tax depreciation methods:

- **Linear method:** This method is the most commonly applied by the taxpayers of the tax and is depreciated linearly assets, that is to say, applying every year a percentage of the cost of the assets, in accordance with the percentages within a range for each type of asset.
- **Depreciation degressive (constant percentage):** This method, which can be used to amortize all types of goods excepts buildings, furniture and household facilities, allows the depreciation will be moved to the first years of useful life of the asset by application of a coefficient to its book value, when the effective depreciation is greater in those early years.
- **Method of double-digit numbers:** As in the previous case, this method can be used to amortize any kind of property except buildings, furniture and household

facilities, determining the amount of digits in function of the amortisation period established in amortisation tables of the officially approved.

- **Other depreciation methods:** Companies that, for technical reasons, wish to repay their goods by applying coefficients other than those laid down in the official tables and want to avoid the uncertainty generated by the need to approve the “effectiveness” of the depreciation, may develop a depreciation plan shall apply provide that it will be accepted by the Tax Administration.

Loss of value of assets:

- By deterioration of credit by insolvency of debtors: this provision covers the risk of possible insolvency of debtors. The only supported method for tax purposes is the allocation of its balance, individualized by the that are analysed individually the characteristics of each of the balances of doubtful loans. For the allocation to the provision is deductible at the time of the chargeable event must attend one of the following circumstances:
 - That is after the period of six months from the expiration of the obligation.
 - The debtor is declared in a situation of competition.
 - The debtor is prosecuted for the crime of concealment of assets.

Obligations have been claimed in court or are the subject of litigation or arbitration procedure.

- By deterioration of representative values of the participation in the capital of entities. Impairment losses, both of holdings in listed entities as holdings in unquoted entities, are considered to be non-deductible expenses since the exercise started from 1 January 2013. Participation in listed entities: In the case of entities listed on a regulated market, the reversal of the impairment losses, recorded and deducted in periods started before 1 January 2013 should be integrated into the taxable base of the period in which the accounting recovery.
- Impairment for the loss of value of items of property, plant and equipment, real estate investments and intangible assets, including goodwill, equity, instruments and debt securities (fixed income). Provisions: the general approach in relation

to the provisions of your deductible, to the extent that they are properly accounted for. However, the law establishes certain exceptions.

f) Non-deductible expenses

The standard contains a comprehensive listing of non-deductible expenses. In particular, are not deductible:

- Those that represent a remuneration of own funds.
- The derived from the accounting for taxes on societies.
- Fines, penal and administrative sanctions, the surcharges of the executive and the surcharge for untimely declaration without notice.
- The loss of the game.
- The donations (free gift and gratuities), while the donations made to certain non-profit entities or which have as their object properties inscribed in the Register of Assets of Cultural Interest or goods linked to the contribution to the conservation of those goods or the performance of activities of general interest, will be entitled to a deduction in 35% share of the donation, with the limit of 10% of the taxable income of the tax period.
- However, expenses for hospitality to customers or suppliers will be deductible up to a limit of 1% of the net amount of the revenue for the tax period.
- Costs of actions contrary to the legal system.
- The costs of services corresponding to operations carried out, directly or indirectly, with persons or entities resident in tax havens, or they are paid through persons or entities resident in the same.
- Financial costs accrued in the tax period, arising from debts with entities of the group, except that the taxpayer attesting that there are economic reasons that are valid for the realization of such operations.
- The costs arising from the termination of the employment relationship, ordinary or special, or of the business relationship of counsellor or administrator of the society that exceed, for each recipient, the amount of 1,000,000 euros.

- Expenditure transactions with related persons or entities, as a result of a different tax rating in these, do not generate income or generate an income exempt or subject to a nominal tax rate lower than 10%.

g) Book capitalization

Current Law introduce an important novelty in virtue of which will not be taxed for the benefit of the part of the subject that is intended to be used in the constitution of a restricted reserve (capitalization), without establishing any investment requirement of this book in any particular type of asset. This measure is to enhance the business capitalization through the increase of the net assets and, therefore, encourage the sanitation of the companies and their competitiveness.

In particular, taxpayers are taxed at a tax rate of 25%, the newly created entities and entities that are taxed at 30%, shall be entitled to a reduction in the tax base of 10% of the amount of the increase of its own funds, provided that requirements are met.

h) Compensation of negative tax bases

From the financial year 2015 has been removed the time limit for the compensation of negative tax bases with positive future bases (which also applies to the slopes of compensation at the beginning of the exercise).

However, the compensation of these negative tax bases is limited quantitatively.

- In general, the entities for which a net amount of turnover in the previous 12 months is less than 20 million euros will be able to compensate for negative tax bases up to the limit of 70% (60% in fiscal year 2016) of the positive tax base prior to his compensation.
- The entities for which a net amount of turnover in the previous 12 months out of at least 20 million euros will be to compensate for negative tax bases with the following limits since the exercise started in 2016:
 - The 50%, when the net amount of the institution is between 20 and 60 million euros.
 - The 25%, when the net amount of turnover exceeding 60 million euros.

i) Tax rates

The general type of lien for taxable by personal obligation to contribute is 25% of the exercise initiated as from 1 January 2016 onwards.

Effective for periods commencing on or after January 1, 2022, a minimum taxation rule is introduced for the following taxpayers:

- Those whose net revenues are at least 20 million euros in 12 months prior to the first day of the tax period.
- Those who are taxed on a consolidated basis, regardless of their net revenues.

The minimum taxation shall not apply to taxpayers that are taxed at 10% (nonprofit organizations that are subject to Law 49/2002, of December 23, 2002, on the tax regime for not-for-profit entities and on tax incentives for patronage), 1% (harmonized collective investment undertakings), 0% (pension funds) and 19% (listed corporations for investment in the real estate market – SOCIMI).

In general, the net tax liability may not be below the so-called “minimum net tax payable” which corresponds to 15% of the tax base, reduced or increased by the amounts derived from the leveling reserve, and reduced by the investment reserve regulated in article 27 of Law 19/1994, of July 6, 1994, amending the Canary Island Economic and Tax Regime.

However, the minimum net tax payable will be:

- 10%, in the case of newly formed entities that are taxed at the rate of 15% regulated in article 29.1 of Law 27/2014, of November 27, on the tax corporate.
- 18%, in the case of credit institutions and entities engaging in exploration, research and mining of mineral deposits and underground hydrocarbon storage facilities.
- Not less than the result of applying 60% to the gross tax calculated according to Law 20/1990, in the case of cooperatives.

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

j) Income generated by permanent establishments

Shall be exempt the positive income obtained abroad through a permanent establishments situated outside the Spanish territory when the same has been subject to tax exempt not identical or similar to this tax with a nominal rate of at least 10%.

Shall be exempt, likewise, the positive income deriving from the transfer of a permanent establishment in respect of which the requirement of taxation with a nominal rate of at least 10% in the terms set forth above.

Finally, it regulates the possibility of operating in the country through permanent establishments differentiated, in which case the application of the scheme of exemption or deduction will be made for each of the permanent establishments independently.

k) Withholding taxes and payments on account

Certain sources of income, such as interest and dividends, should be subject to a withholding tax at the source as payment on account of the tax debt at the end of the year.

In addition, with certain exceptions, the leases of certain real property are subject to a withholding income tax paid to lessors.

On the other hand, Spanish companies have the obligation to make three payments on account of the definitive tax (in April, October and December of each year).

3.2. Personal Income Tax

It is regulated by Law 35/2006, of 28 November. For its part, the taxation of individuals (and legal) non-residents is regulated through a separate law (the Consolidated Text of the Law of the Trax on income of non-resident).

a) Tax payers

Is considered to be a contributor for the Personal Income Tax purposes when:

- is a person who has his habitual residence in Spanish territory.
- is a physical person of Spanish nationality with habitual residence abroad but unless any circumstances provided for in the law such as by diplomatic, consular services, etc.)

Also, it is considered that retains its rating of contributor that person of Spanish nationality to reside in a tax haven (this rule will applied during the year in which the change of residence and the following four).

b) The taxable event

Taxable event is the perception of income by the taxpayer by the taxpayer, give throughout their worldwide income.

c) Exempt income

The law establishes a number of exempt income.

Among the exemptions which are collected, highlights the relative to labour earnings received by work developed abroad. This exemption shall apply to the remuneration accrued during the days of stay abroad up to an amount of 60,100 euros per year provided that certain requirements are met.

It should also be noted the exemption for capital gains arising in the transmission of the habitual residence of the taxpayer when the total amount will be reinvested in the acquisition of a new habitual residence, and the exemption of the compensation for dismissal or termination of the worker.

d) Taxable income

The income subject to taxation by the tax are the following:

- Income from work, taxed both yields cash yields in kind.
- Income from business activities.
- Real estate capital gains.
- Return on capital assets.
- Gains and losses.

e) Reductions in the tax base in order to adapt the tax on personal and family circumstances of the taxpayer.

The Law establishes a minimum (minimum of the taxpayer, at least by descendants, at least by ascendants and minimum disability) that constitute the part of the tax basis that allocated to basic needs and personal of the taxpayer, are not subject to taxation.

f) Determination of the Tax base

The Tax base will be the result of applying to the general tax base reduction by attention to situations of dependency and Aging, and by contributions to social pension systems, including those consisting in favour of persons with disabilities, contributions to heritage protected persons with disabilities, and the compensatory pension reductions. The implementation of the reductions referred to may not generate a negative base.

g) Determination of the full quota: Tax Rates

The full quota is calculated by applying the tax rates to the net tax base.

In particular:

- is calculated what could be called the “general full payment”, applying the progressive scale of assessment to the tax basis general and subtracting from it the resulting from applying the same scale to the personal and family minimum.
- is calculated what might be termed “savings full payment”, by applying the scale of the savings to the tax basis of savings.

TAXABLE SCALE

Tax basis up to (Euro)	Full payment (Euro)	Rest of tax basis (Euro)	Tax rate (%)
0	0	12,450	19%
12,450	2,365.50	7,750	24%
20,000	4,225.50	15,000	30%
35,200	8,725.50	24,800	37%
60,000	17,901.50	240,000	45%
300,000	125,901.50	Onwards	47%

As well, the tax basis of saving, which, in his case, does not correspond with the remainder of the personal and family minimum be taxed to a scaling of fixed rates. The result of this is that the general state and regional scale for the years 2023 and following is:

TAXABLE SAVINGS SCALE

Tax basis up to (Euro)	Full payment (Euro)	Rest of tax basis (Euro)	Tax rate (%)
0	0	6,000	19%
6,000	1,140	44,000	21%
50,000	10,380	150,000	23%
200,000	44,880	Over 200,000	27%
300,000	71,880	Over 300,000	28%

h) Liquid and differential quota. Deductions

The liquid state and autonomic liquid share of the tax are the result of subtracting the state and regional contributions (in their corresponding percentages) certain deductions:

- Deductions for investment in companies of new or recent creation
- Deductions for economic activities
- Deductions for donations
- Deduction for income obtained in Ceuta and Melilla
- Deduction for actions for the protection and dissemination of the Spanish Historical Heritage, and of the cities, and declared a World Heritage Site.

i) Withholding Taxes

Payment of proceeds derived from capital gains, the gains of share or holdings in collective investment institutions and the personal income from work, among others, are subject to withholding at the source (or, in the case of income in kind), which is considered a payment on account of the final fee.

3.3. Tax on the Income on Non-residents

Is regulated by the Consolidated Text of the Law of the Tax on the income of non-residents, approved by Royal Legislative Decree 5/2004, of 5 March (hereinafter, TRLIRNR), and the Regulation of the Tax on the income of non-residents, approved by Royal Decree 1776/2004, of 30 July.

a) Income obtained through permanent establishment

Taxpayers who obtain income through permanent establishment located in Spanish territory will be taxed by the whole of the income attributable to the same, irrespective of the collection.

A key feature of the permanent establishment is the absence of legal personality distinct from that of the corresponding to the array.

In general terms, the permanent establishments in Spain of persons or entities not resident are taxed on the basis of their net income at the same rate as the Spanish companies (with 28% general in 2015 and 25% from the financial year 2016).

The taxpayers of this tax operating in Spanish territory through permanent establishment are generally required to keep separate accounts, in accordance with the rules laid down for the Spanish companies.

b) Income obtained without the mediation of permanent establishment

The taxpayers of this tax obtain income in Spain without the mediation of permanent establishment will be subject to tax only on the income of Spanish source in accordance with the following rates:

TAX RATES TO BE APPLIED

Type of income	Tax rate (%)
General	24 ¹
Dividends Interest Capital gains Income derived from the transfer or redemption of securities representing the capital or equity of collective investment undertakings.	19
Special cases:	
- Yields of reinsurance operations	1.5
- Performance of maritime navigation or air	4
- Seasonal foreign workers	2

c) Tax regime for employees of multinational group displaced to Spain

Special tax regime applicable to persons who acquire the consideration of tax residents in Spain as a result of the displacement to Spanish territory by virtue of a contract of employment or the acquisition of the status of administrator of an entity in whose capital does not participate or participates in less than 25% of the capital stock of the same.

The particularity of this regime is that, despite the fact that the person who applies it to be considered tax resident in Spain, the labour income obtained are taxed according to

¹The rate is 19% for taxpayers resident in another Member State of the EU or of the EEA with which there is effective exchange of tax information.

the rules applicable to non-residents, therefore, give to maximum rate of 24% up to maximum net tax base of 600,000; the rest of the tax base is taxed at a rate of 47%.

In addition, the regime has other advantages, such as the non-compliance with certain obligations of information (model 720) or the presentation of ISD and IP in the modalities of non-residents, that is, taking into account only the assets located in Spain.

The scheme is applied in the displacement exercise and in the subsequent five.

It is necessary to qualify for the implementation of the regime, which had not been considered tax resident in Spain in the 10 years prior to displacement. The regime is expressly vetoed to professional athletes.

3.4. Wealth Tax

Individual resident in Spain should be taxed by the Estate Tax for all goods (World Heritage Site) of the holding to 31 December of each year, valued in accordance with the tax rules. Non-residents are taxed only for the property or the rights exercisable in Spain. However, some agreements may affect the application of this standard.

The scale of assessment established for this tax, which will be implemented in the absence of a rate approved by part of the Autonomous Community in question, is the following:

Tax basis up to (Euro)	Full payment (Euro)	Rest of tax basis (Euro)	Tax rate (%)
0	0	167,129.45	0.2
167,129.45	334.26	167,123.43	0.3
334,252.88	835.63	334,246.87	0.5
668,499.75	2,506.86	668,499.76	0.9
1,336,999.51	8,523.36	1,336,999.50	1.3
2,673,999.01	25,904.35	2,673,999.02	1.7
5,347,998.03	71,362.33	5,347,998.03	2.1
10,695,996.06	183,670.29	hereafter	3.5

In the absence of regulation, the minimum exempt, and the minimum time from which it is required to file a tax return is 700,000 €.

Regardless of the minimum exempt and that some Autonomous Communities they refund the fee on a 100 €, the obligation to declare when the value of the property or rights is greater than 2,000,000 €.

3.5. Tax on Inheritance and Donations

This tax falls on the heirs, beneficiaries and donors resident in Spain for all goods that they receive, whether they are located in Spain or abroad. In the case of non-resident beneficiaries, they will be subject to this tax liability should be taxed in Spain by the acquisition of goods and rights, whatever their nature, they were located, could exercise or should be met in Spanish territory.

The tax is calculated by adjusting a progressive scale of types (according to the amount of the inheritance or donation) by means of a coefficient which takes into account the pre-existing equity and its degree of relationship to the transferor.

The rates of duty and the weightings applicable (in the absence of types and coefficients own approved by the corresponding Autonomous Community) are the following.

Tax basis up to (Euro)	Full payment (Euro)	Rest of tax basis (Euro)	Tax Rate (%)
0		7,993.46	7.65
7,993.46	611.50	7,987.45	8.50
15,980.91	1,290.43	7,987.45	9.35
23,968.36	2,037.26	7,987.45	10.20
31,955.81	2,851.98	7,987.45	11.05
39,943.26	3,734.59	7,987.46	11.90
47,930.72	4,685.10	7,987.45	12.75
55,918.17	5,703.50	7,987.45	13.60
63,905.62	6,789.79	7,987.45	14.45
71,893.07	7,943.98	7,987.45	15.30
79,880.52	9,166.06	39,877.15	16.15
119,757.67	15,606.22	39,877.16	18.70
159,634.83	23,063.25	79,754.30	21.25
239,389.13	40,011.04	159,388.41	25.50
398,777.54	80,655.08	398,777.54	29.75
797,555.08	199,291.40	Hereafter	34.00

Some of the Autonomous Communities, however, have set bonuses that lead to no fee to pay (or that it is aimed at “0”). This reaches to the sequences and/or donations, depending on the autonomy, in the case of heirs or grantees are “near” (children, grandchildren, spouses, ascendants).

3.6. Value Added Tax

It is regulated by the Law 37/1992, in force since 1 January 1993, which incorporates the right Spanish directives governing the VAT, whose main rules are harmonized in the different Member State of the European Union.

VAT is a tax of indirect nature, which is levied on the supply of goods or services made by entrepreneurs and professionals, in the exercise of its activity. It is a tax neutral for those entrepreneurs and professionals being who really supports their cost to the final consumer.

Within the Spanish territory, VAT is not applicable in the Canary Islands, Ceuta and Melilla.

The rates are as follows:

- The standard rate is 21% applicable to most of the deliveries of goods and services.
- There is a reduced rate of 10% applicable, among others, to deliveries, intra-Community acquisitions and imports of products destined for human or animal consumption, except for alcoholic beverages, water, housing and certain pharmaceutical specialties.

This reduced rate is also applicable to, among others, services as carriage of passengers and their luggage and entrance to libraries.

- There is super reduced rate of 4% applicable to:
 - o Bread, flour, milk, cheese, eggs, fruit and vegetables.
 - o Books, newspapers and magazines that do not contain primarily advertising.
 - o Medicinal products for human use.
 - o Hire of disabled people.
 - o Prostheses for people with disabilities.
 - o Certain public housing.

The regulations of the tax sets, in turn, a series of special rules for the determination of the tax base, among other, the assumptions of self-consumption of goods or services, as well as those cases in which there is no link between the parties (the tax base is made up of the fair market value).

3.7. Transfer Tax and Stamp Duty

Tax on Patrimonial Transfers and Documented Legal Acts (ITP and AJD) imposes a limited number of transactions, among which:

Tax Rate	%
Corporate operations	1
Real estate transmissions	6
Transmissions of movable property and administrative concessions	4
Certain rights (mainly warranty, pension, bonds or loans)	1
Certain public deeds	0.5

The Autonomous Communities are entitled to apply different types in certain cases. In fact, many of them have been established as rate applicable to transfers of real estate and the 10% and Documented Legal Acts the 1.5% in certain operations.

At present do not pay corporate restructuring operation, the constitutions of societies, the capital increase, the contributions of the partners in general and certain movements of headquarters of effective address or registered office.

3.8. Obligations of Information on Goods and Rights Abroad

The regulation addresses an obligation of information assets and rights abroad, which affects physical and legal persons (including entities of attribution of income) resident in Spain and to non-residents with a permanent establishment.

This obligation extends to accounts, values (including insurance and annuities and temporary) and immovable property or rights over the same, with certain exceptions, quantitative and qualitative.

Although it is a purely formal obligation to perform each year in relation to the information corresponding to the previous year (being the first statement to submit the corresponding to the exercises that finalized from 29 October 2012), the lack of fulfilment of this obligation or its improper performance or is subjected to a burdensome system of sanctions.

In addition, in the event of a breach of this obligation, the income shall be deemed to be discovered undeclared income or gain of heritage is not justified, attributable to the last period of the non-prescribed, although it can be proven that the income is generated before, unless it is proven that were declared.

The general term for statement covers from 1 January to 31 March of the year following the year for which the declaration is presented.

3.9. Property Tax

This tax is payable annually by taxing the possession of real property or real rights thereto on the cadastral value determined in accordance with the rules governing the Cadastral Office, to different types up to a maximum of 1.30% for the urban and 1.22% for the rustic property.

3.10. Tax on Economics Activities

This tax is payable annually by the business activities carried out within the municipality.

Notwithstanding the above, are as follow:

- Taxable persons
- Taxable persons who engage in the exercise of its activity in Spanish territory, during the first two tax periods in the development of the same.
- The passive subjects of the tax on corporation and entities without legal personality that have a net amount of less than 1 million euros in the previous year (calculated at the group level, in accordance with article 42 of the Code of Commerce).

As soon as taxpayers by the IRNR, the exemption will only reach those who corporate in Spain through a permanent establishment, provided that they have a net amount of less than 1 million euros in the previous year.

The fee to pay is calculated on the basis of different factors (type of activity, area used, the net amount of turnover, etc.) The minimum rates are published by the Government and can be adapted by each municipality.

3.11. Tax on Building, Installations and Other Works

This tax is levied on the real cost of any work or construction activity that requires a municipal permit prior, excluding VAT and other similar taxes.

The rate of the tax shall be fixed by each Municipality, without that type cannot exceed 4%, accrue at the start of the work or construction, regardless of whether it was obtained the license.

3.12. Tax on the Increase of the Value of the Land of Urban Nature

This tax is levied on the increase in the value of urban land revealed at the time of the transmission.

- Passive subject: in the transmissions onerous the transferor and the lucrative nature of the acquirer.

Type of assessment: the fixed by each Municipality, without that type cannot exceed the below limits:

Period of generation	Coefficient
Less than 1 year	0,14
1 year	0,13
2 years	0,15
3 years	0,16
4 years	0,17
5 years	0,17
6 years	0,16
7 years	0,12
8 years	0,10
9 years	0,09
10 years	0,08
11 years	0,08
12 years	0,08
13 years	0,08
14 years	0,10
15 years	0,12
16 years	0,16
17 years	0,20
18 years	0,26
19 years	0,36
Equal or greater than 20 years	0,45

In order to comply with the mandate of the Constitutional Courts in its rulings of 2019 and 2021, the Royal Decree-Law adapts the tax base of the tax to the effective economic capacity of the taxpayer. To this end, the technique for determining the tax base in the objective system is improved, so that it reflects at all times the reality of the real estate market. In addition, this system becomes optional, allowing the tax to be the difference between the transfer value and the acquisition value of a land when it's requested by the taxpayer.

The standard regulates a double system for determining the tax base of the tax:

a) Objective estimation (objective system)

The first method is similar to the traditional one. Specifically, the tax base will be obtained by multiplying the cadastral value of the land at the time of accrual by the coefficients approved by the city council to which the tax levy corresponds and which will depend on the period of a generation of the increase in value. These coefficients may not exceed those indicated above, depending on the number of years that has passed since the acquisition of the property.

In the case of operations carried out within periods of less than one year from the acquisition, the full months of ownership of the property must be computed.

The coefficients will be updated annually through a legal standard, taking into account the evolution of the real estate market. If after that update the coefficients of the tax ordinances are higher than the maximums indicated above, the latter will be applied until the excess in the tax ordinance is corrected.

Finally, the possibility is established that town councils can agree, for the exclusive purposes of determining the tax base, a reduction of up to 15% of the cadastral value of the land, in order to adapt the amount of the tax to the reality of each municipality.

b) Direct estimate (real capital gains)

If, at the request of the taxable person, it is found that the increase in value, determined by the difference between the values of the land on the dates of transfer and acquisition, is lower than determined by the objective method, that increase will be taken as the basis. These values may be subject to verification by the town councils.

For these purposes, the following rules must be applied:

- In the case of real estate in which there are both land and construction, the difference between the transfer price and the acquisition price of the land will be obtained by applying the proportion that represents the cadastral value of the land in the total cadastral value.
- The value of the transfer or acquisition will be taken as the highest among that stated in the title documenting the operation (or the one declared in the

Inheritance and Donation Tax in the case of lucrative transfers) or the one verified, where appropriate, by the Administration Tax.

The expenses or taxes imposed on these acquisition or transfer operations cannot be computed in this calculation procedure.

The taxable person must declare the transfer of the property and provide the titles that documents its transfer and prior acquisition.

No taxpayer will pay this tax if they do not make a profit. Moreover, this tax will be deducted from the value of transmission of real property for the purpose of Income Tax.

4. LABOUR AND SOCIAL SECURITY LEGISLATION

This section gives an overview of the main aspects of Spanish employment law and social security legislation to consider when carrying out an activity in Spain.

4.1. Employment law framework

The labour relations of workers are regulated, in general, by the provisions of the Royal Legislative Decree 2/2015, which approved the Worker's Statute (WS). Besides, there is a substantial body of legislation regarding employment, social security and health and safety, among others.

4.2. Employment contracts

The contracts can be in writing or orally, except in those cases in which expressly established that it is mandatory the written form of the contract (for example, in the case of temporary contracts, part-time contracts or training contracts). Not to be observed this formal requirement, the contract is concluded for an indefinite period of time and full-time, unless proven otherwise.

The main types of contract are the following:

Long-term contract

Its main feature is that in this type of contract is not set a specific time of completion. The contract that other contracts, such as temporary, the training or practices that have a maximum time of duration in time, contract continues until the company or the worker break it.

The fixed contract is broken only in the event that the company so decides of the worker. For the worker, the advantage of being adrift in the indefinite right to compensation in the event of dismissal. Unlike the temporary contracts, the worker jobs can receive only two types of compensation:

- Compensation of 20 days per year in the case of dismissal.
- Compensation of 45 days per year until 12 February 2012 and 33 days per year from that date, in the event of been declared the dismissal. Although, it is clear that once claimed by the worker, you can reach agreement by other amounts.

In the event that the worker decides to terminate the contract, we would be talking about a voluntary, which implies losing their right to compensation and limitations in access to unemployment benefits.

Fixed-term contract

In Spanish law causes exist legally assessed for the subscription of fixed-term contracts or temporary.

All contracts must be in writing and shall specify the reason for the temporary nature recruitment. Otherwise, or when the contractual modality is not really a cause legally established, the contract shall be presumed, in the absence of proof attesting to the temporary nature.

If the contract of employment for a specified period exceeds one year, the part of the contract to make the complaint is obliged to notify the other of the termination of the same with a minimum of 15 days or, as the case may be, with the notice regulated in the collective application.

Part-time contract

The contract of employment shall be deemed to be held at the time when it has agreed to the provision of services for a number of hours per day, per week, per month or per year less than the workday of a comparable full-time worker, that is, a full-time worker in the same company and work centre and that perform the same or similar work.

Part-time workers have the same rights as full-time workers, although, as appropriate to their nature, such rights will be recognized in a proportional way, as a function of time worked.

Distance work (teleworking)

Law 10/2021 defines that when 30% of the working day in a three-month reference period is carried out from home, it will be considered remote working. It is possible to agree on the implementation of the distance work, always and when it needs to be formalized in writing (both in the initial contract as in a subsequent agreement).

Have consideration of distance work in which the provision of labour activity is carried out predominantly in the home or at the place of your choice.

Contract of employment for an indefinite period of support to entrepreneurs

Is a contractual modality that is concluded for an infinite period of time and full-time or part, applicable to companies with fewer than 50 workers.

The trial period is 1 year and the companies that in the 6 months prior had been extinctions for objective reasons declared inadmissible or had been a collective dismissal will not be able to use this modality. This contract will allow to take advantage of tax incentives and subsidies to social security contributions for certain groups of workers, always and when the company keep the worker in employment, at least 3 years and maintain the level of employment in the company reached with the contract for an indefinite period of support to entrepreneurs for at least 1 year since the conclusion of the contract.

4.3. Work centre and working time

When you open a new work centre, it is necessary for its proper functioning that are entrepreneur to communicate to the General Directorate of Labour, the place where the service will be. This communication shall be made within 30 days following the start of the activity.

The maximum number of working hours per week is 40. These may be computed on an annual average basis, subject to a maximum of nine hours per day. Each hour worked over this limit is overtime.

Overtime cannot exceed 80 hours per year and must be compensated with money or an equivalent amount of time off. Moreover, the amount paid per hour of overtime cannot be below the rate paid for ordinary working hours.

The ordinary minimum annual vacation period is 30 calendar days.

4.4. Salaries

For 2023, the official minimum salary is set at 1,080 euros and is established by law. However, the minimum wage for each professional group is usually set forth in collective agreements.

The annual salary is usually paid in 12 monthly instalments plus 2 annual bonus payments on the dates provided in the applicable collective agreements. Thus, an employee's gross annual salary is normally paid in 14 instalments.

4.5. Termination of employment

Labour contracts can be extinguished by different causes, which can be divided into two groups: the extinction for dismissal and extinction due to causes other than dismissal.

Extinction due to causes other than dismissal:

- Mutual agreement of the parties: both parties, on a voluntary basis, they decide to put an end to the employment relationship.
- Reason set forth in the contract: you can extinguish valid for any of the reasons provided in the contract, except that it can be considered that constitute abuse of rights by the employer.
- Resignation of the worker: it is the worker who decides to end the contract, with the notice that indicates the collective agreements.
- By the will of the worker: based on a breach of contract by the employer. The worker will be entitled to compensation for unfair dismissal.
- Expiry of the agreed time: on completion of the contract the worker will be entitled to receive compensation in the amount equivalent to the proportional part of the amount that would be payable 12 days wages for each year of service.

Cancellation of a contract by dismissal:

- Collective dismissal: it is caused by economic or organizational reasons.
- Dismissal objective: it is caused by incompetence, lack of support, lack of adaption, or technical or organizational reasons.
- Disciplinary dismissal: when there is a serious and wrongful death of the worker.

When there is a dismissal, this can be appropriate or inappropriate. In the event that the worker has the right to receive compensation of 20 days per year worked, with a maximum of 12 months. In the case it is declared inadmissible, the compensation will be, from 2012, of 33 days per year worked with a maximum of 24 months (previously 45 days per year with a maximum of 42 monthly instalments).

4.6. Social Security General Regime

Necessary have to be included in the General Scheme of the Social Security (RGSS tour) employed and assimilated, except that by their activity should be included in the field of application of the special scheme of the Social Security, in accordance with the provisions of the General Social Security Act (LGSS).

4.7. Registration of the company before the Social Security

The company has to register in the Treasury General of the Social Security (TGSS) to start your activity, and request the inclusion in the corresponding scheme. Registration is only valid for the entire national territory, and identifies the business circumstances in order to the inclusion of workers who provide services in the corresponding Social Security regime, with the rights and obligations of the same set.

4.8. Affiliation of workers'

Membership is that individuals are integrated into the system of the TGSS. Can be carried out at the request of the workers themselves, the employer, or ex officio by the TGSS. The employer has the obligation to affiliate to those workers who were not affiliated with prior to the TGSS.

4.9. Incorporation of workers

The employer shall discharge by the TGSS to the workers who are going to provide services to you., prior to the start of the work activity but never before the 60 calendar days prior to the scheduled for the beginning of the worker.

4.10. Social Security contribution

Shall be subject to the obligation to contribute to the RGSS tour workers and assimilated within its field of application and employers on whose account work. The price includes two contributions: employers and workers. However, for the contingences of work-related injuries and occupational diseases (WRI and OD) the complete quote shall be borne exclusively by employers.

4.11. Legal representation of workers

Have been recognized the right of representation. In companies that have less between 10 and 50 workers, the representation corresponds to the staff delegates. You can also have a staff delegate for those companies that maintain between 6 and 10 workers, if they so choose these by majority. In companies with 50 or more workers, the representative body is the Committee of the company.