

DOING BUSINESS

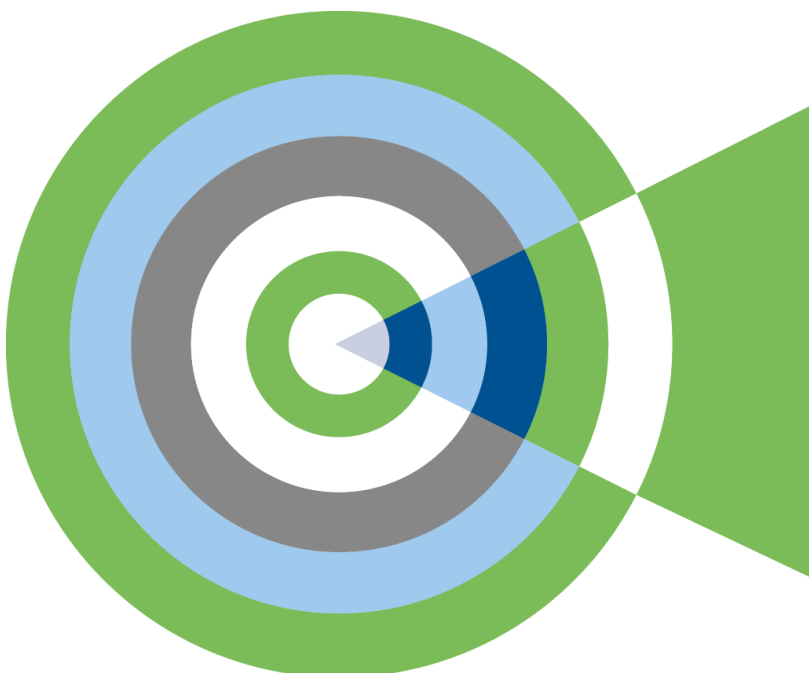
IN SPAIN



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 100 countries throughout the world.

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

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

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

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at July 2021.

We look forward to helping you do business in Spain.

2 – BUSINESS ENVIRONMENT

THE SPANISH CONSTITUTION AND GOVERNMENT

Under the 1978 Constitution, Spain is a parliamentary monarchy.

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

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

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

THE DOMESTIC MARKET

POPULATION

According to the census of 2020, the country had 47.3 million inhabitants. The growth rate of the population is 0.46%. More than half of the people live in cities.

AREA

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

POPULATION DENSITY

There are 93.7 inhabitants per square kilometre.

CURRENCY

The currency of Spain is the euro (EUR).

LANGUAGE

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

THE ECONOMY

In 2020 the gross domestic product (GDP) of the country is 1,121,698 million of euro and the GDP per capita is €23,690, both numbers went down by 10% with regards to 2019 due to the Covid pandemic. Exports of goods accounted for 31% of GDP, import of goods 29%, industry 21%, % and agriculture 3%.

The recovery that began after the weak start of 2021 gained traction in the second quarter, in line with the lower uncertainty as a consequence of the vaccination process, the release of the demand that was stunted during the Covid crisis, and the recovery in the world economy. The result is a GDP growth forecast of 6.3% for 2021 and 5.8% for 2022. The intensity of the global recovery will continue to create bottlenecks in key supplies such as semiconductors, metals and energy products.

UNEMPLOYMENT

The coronavirus crisis delivered a serious blow to the Spanish job market in 2020. By the end of the year, 622,600 jobs had been destroyed and there were 527,900 more people out of work for a total of 3.71 million unemployed, according to the EPA workforce survey. The jobless rate also reached 16.1%.

When the pandemic hit, employment was on the verge of fully recovering from the financial crisis of 2008 and the protracted recession that followed. The new crisis has evidenced that Spain has yet to tackle one of its enduring structural problems: the labour market, which has been posting an average unemployment rate of 16.5% since 1980.

PRICES AND INTEREST RATES

In 2020 the legal interest rate applied in Spain stood at three percent. Legal interest rate has been stable at three percent for five years on a row. The rate peaked in 2008 and 2009, when it reached 5.5 percent.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

According to the balance of payments statistics, Spain's net lending stood at 2.3% as a percentage of GDP in 2019, slightly down on the prior year, against a backdrop of continued, albeit slowing, economic growth. Developments in net lending are explained by the reduction in the capital account surplus, resulting from the decrease in funds from the EU, stagnation in tourism receipts as a percentage of GDP and the widening of the deficit on non-energy goods, which offset the improvement in the energy balance prompted by the decline in oil prices.

There has been an abrupt change in the outlook for the economy's external balance as a result of the COVID-19 health crisis, with major uncertainty in the near future about the scale of its effects on this balance, against a backdrop of a drastic reduction in the foreign goods and services trade.

In terms of financial flows, excluding the Bank of Spain, the surplus balance of financial transactions of the Spanish economy was lower than in 2018, influenced by the rise in purchases of general government debt by international investors, which was only partially offset by the fall in foreign direct investment inflows. For the first time since 2014, the financial account of the Bank of Spain showed a surplus, affected by certain changes in the implementation of the ECB's monetary policy.

FINANCIAL INSTITUTIONS

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

STOCK MARKET

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

3 – FOREIGN INVESTMENT

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

Globalization has helped accelerate the growth of FDI, allowing it to become one of the key factors of the global economy. Developed countries, and the EU in particular, have always been the leading players in FDI, although developing countries are assuming an ever-increasing role. In the case of Spain, since the mid-2000s, the country has become not only an important destination for FDI, but also a source, making Spain today Europe's 3rd economy for outward FDI as a share of GDP and second for inward FDI. Most of Spain's inward FDI has been channelled into the services sector with outward FDI mainly driven by large, productive companies. As regards geographic distribution, Europe and the U.S. (albeit to a lesser degree) continue to be main investors in Spain, even though developing countries are increasing penetration. Most outward investment is destined towards Europe and Latin America. Foreign investment in Spain, as well as Spanish investment abroad, has proven to be profitable, with positive spillover effects in terms of GDP growth, employment, exports, and efficiency gains for Spanish firms. Investment abroad by Spanish companies has also been beneficial, often accompanied by greater investment in human capital and R&D

4 – SETTING UP A BUSINESS

There are many ways in which a business may be set up in Spain.

This section outlines the most common alternatives.

PUBLIC LIMITED COMPANY / SOCIEDAD ANÓNIMA (SA)

This type of company, commonly known as the corporate name previously reserved exclusively in Spain and followed by "SA", is normally used by medium to large corporations and/or by some sectors of activity that require it because of their speciality.

This kind of company is ruled by the Spanish Companies Act (approved by Royal Legislative Decree 1/2010, of 2nd July).

The responsibility of the shareholders in this type of company is, in principle, limited to their shareholding in the capital of the company.

The SA is required to have a minimum share capital of EUR 60,000, of which a minimum of 25% must be paid up upon incorporation in an account in the company's name at the financial institution or institutions designated and this capital will be divided into shares. There are higher minimum capital requirements for specific types of SA corporations, such as banks and insurance companies.

The capital of the SA may be paid up in cash or in kind (equipment, stock, property, etc.).

The cash contribution to the capital has to be certified by a bank and any contribution in kind has to be independently valued by an independent expert appointed by the Commercial Registry. The directors' report must be approved by the general meeting.

The company may opt for a board of directors or an administrator system made up of a sole or several directors.

Spanish law does not establish a maximum number of shareholders to be incorporated in a SA. However, sole shareholder companies are subject to a special system of publicity. This exceptional condition has to be registered in the Commercial Registry and mentioned on all corporate stationery and legal documents.

The SA must be incorporated before a public notary, where the minimum information requirements include the details of the shareholders, registered office, activity of the company, capital structure, accounting year-end and term. The deed of incorporation usually includes the minutes of the first meeting of the company, during which the administration of the company is decided upon.

PRIVATE LIMITED LIABILITY COMPANIES / SOCIEDAD LIMITADA (SL)

This type of company, commonly known as the corporate name previously reserved exclusively in Spain and followed by "SL", is normally used by small-to-medium-sized corporations.

This kind of company is ruled by the Spanish Companies Act (approved by Royal Legislative Decree 1/2010, of 2nd July).

The responsibility of the shareholders is, in principle, limited to their participation in the capital of the company.

The SL is required to have a minimum capital of EUR 3,000 which must be paid up in full upon incorporation, this capital will be divided into shares. Spanish law does not establish a minimum number of shareholders to be incorporated in a SL. However, sole shareholder companies are subject to a special system of publicity. This exceptional condition has to be registered in the Commercial Registry and mentioned on all corporate stationery and legal documents.

As in the case of the SA, the SL must be incorporated before a public notary, when the minimum information requirements should include the details of the shareholders, registered office, activity of the company, capital structure, accounting year-end and term. The deed of incorporation usually includes the minutes of the first meeting of the company during which the administration of the company is decided upon.

The capital of the SL may be paid up in cash or in kind, equipment, stock, property, etc. The cash contribution to the capital will have to be certified by a bank, but unlike the case of the SA, any contribution in kind will not require an independent valuation. The director's report approved by the general meeting will be sufficient.

The company may opt for a board of directors, or an administration system made up of a sole or several directors.

BRANCHES / SUCURSALES

The main difference between a branch and a subsidiary is that a branch is not an independent legal entity from the main company, whilst a subsidiary is legally independent.

This kind of entity without legal status is mainly ruled by the Code of Commerce and the Regulations of the Companies Register Act.

The creation of a branch does not involve the incorporation of a new company, so it is not necessary to comply with the requirements that the Law establishes for the incorporations of new companies. This means that, among other considerations, the accounts of a branch are part of the company's accounts and that, although the permanent establishments should present their annual accounts in Spain, a branch does not limit its liability to the assets assigned to the branch, but to all company assets.

In order to create a branch in Spain, legalised translated copies of the legal documents of the company are required: bylaws, appointment of directors, and a deed of incorporation of the branch duly notarised with the pertinent stamp duty filled (exempt in most of the cases) and registered in the Commercial Registry where the branch has its registered address. A new branch representative need to be designated and has to be a Spanish resident.

The Spanish branch of a foreign company is a permanent establishment in Spain for tax purposes and is therefore required to keep accounts in accordance with the Spanish accounting principles and statutory requirements. This includes the obligation to file annual accounts to the Commercial Registry and an annual corporation income tax return for the branch as a permanent establishment in Spain. One financial characteristic of a foreign company's branch is that it is allowed to offset some expenses incurred by the parent company.

With the annual accounts, the branch will have to include a legalised copy of the filing of the annual accounts of the parent company in its country of residence; for this, it must have a legalised copy of the accounts prepared in accordance with the accounting principles in that country. The signatures of the directors need to be witnessed and legalised by a notary.

GENERAL PARTNERSHIP / SOCIEDAD COLECTIVA

This is one of the partnerships which can be used in Spain.

This kind of entity is ruled by the Spanish Code of Commerce.

This type of partnership is rarely used. The partners have joint, several and unlimited liability for the debts of the partnership.

The General Partnership does not require having a minimum share capital.

Spanish law establishes a minimum number of two shareholders to be incorporated.

This partnership must be incorporated before a public notary and registered in the Commercial Registry. Once registered, it becomes an independent legal entity. However, the partners have unlimited liability for the obligations and liabilities of the partnership.

LIMITED PARTNERSHIP / SOCIEDAD COMANDITARIA POR ACCIONES

This is another type of partnership used in Spain.

This kind of entity is ruled by the Spanish Companies Act (approved by Royal Legislative Decree 1/2010, of 2nd July).

The applicable subsidiary regime will be that of Public Limited Companies.

The peculiarity of this partnership is that it has two categories of partners, those with unlimited liability (*Socios Colectivos*) and those with limited liability (*Socios Comanditarios*).

Spanish law establishes a minimum number of two shareholder to be incorporated, at least one of them has to be a collective shareholder.

The Limited Partnership is required to have a minimum share capital of EUR 60,000, of which a minimum of 25% must be paid up upon incorporation. This capital will be divided into shares.

The partners with limited liability are only liable, in principle, to the extent of their capital contribution.

This partnership must be incorporated before a public notary and registered in the Commercial Registry. Once it is registered, it becomes an independent legal entity with the two types of partners. The difference between the two types of partners and thus the capital must be clearly stated in both the deed of incorporation and in the balance sheet of the partnership.

CIVIL COMPANY / SOCIEDAD CIVIL

This is a kind of hybrid company for tax purposes.

This kind of company has very scarce regulation, mainly contained in the Spanish Civil Code.

The number of shareholders must be at least two.

The company operates as a pass-through entity for tax purposes where its object is not of a mercantile nature whilst it is a taxpayer subject to corporate income tax otherwise.

Due to the flexibility of its governing regime, this kind of company is quite suitable for small start-ups which have not completely decided their corporative configuration yet or where their capital is made up of a mix of capital, labour and/or other contributions. It can be switched to any other kind of company at a later stage.

5 – LABOUR

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

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

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

EMPLOYMENT CONTRACTS

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

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

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

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

TRIAL PERIOD OF EMPLOYMENT

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

- Graduate employees – maximum six months.
- Other employees – maximum two months, three months in companies with less than 25 employees.
- Contract to give experience – one month for graduate employees with a qualification obtained after a three-year degree course and two months for graduate employees
- Apprenticeship – maximum three months in companies with less than 25 employees.
- Temporary contract (maximum 6 months) – one month unless otherwise stated in the collective bargaining agreement.

TYPES OF CONTRACTS

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

There are different types of temporary contracts for the different needs of employers. The most commonly used ones are as follows:

- For the duration of a job or service – this type of contract is commonly used in the construction sector.
- To deal with an accumulation of orders – the contract can be for a maximum of six months in a twelve-month period. This can be modified by collective bargaining agreement.
- To replace employees on temporary leave of absence with the right to return to their jobs.
- To give work experience to qualified persons within five years after finishing their studies. Their minimum salary is reduced under this type of employment contract to 60% on that applicable to the employment category for the first year and 75% for the second. The term of the contract must be between six months and two years.
- Apprenticeship – for unqualified workers over 16 and under 25 years of age, with a reduction in the working day of 25% during the first year of the contract and 15% during the second and third year of the contract and remuneration adjusted to the time worked according with the collective bargaining agreement. The term of the contract must be between one and three years.

SOCIAL SECURITY

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

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

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

6 – TAXATION

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

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

BASIS OF TAXATION

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

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

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

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

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

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

CORPORATE INCOME TAX

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

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

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

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

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

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

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

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

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

SPANISH INTERNATIONAL HOLDING COMPANIES (ETVEs)

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

Spanish international holding companies are not taxed for dividends or profits allocated from foreign subsidiaries, as well as for capital gains deriving from the transfer of their shareholdings in foreign subsidiaries, as long as the shareholding is held for at least one year and it represents at least 5% of the share capital in the subsidiary or it is worth at least 20 million euros.

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

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

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

INDIVIDUAL INCOME TAX

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

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

- EUR 1,150 where the taxpayer is over 65.
- EUR 1,400 where the taxpayer is over 75.
- Between EUR 3,000 - 9,000 on the taxable base for disabled taxpayers, depending on their level of disability.

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

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

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

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

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

The savings' base is taxed at the following rates:

- 19% on the first EUR 6,000.
- 21% on the balance up to EUR 50,000.
- 23% over EUR 50,000.

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

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

NON-RESIDENTS INCOME TAX

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

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

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

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

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

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

FISCAL REPRESENTATION OF NON-RESIDENT COMPANIES AND INDIVIDUALS

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

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

TAX DECLARATION ON ASSETS HELD ABROAD

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

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

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

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

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

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

Failing to do so can cause heavy fines, with penalties of EUR 5,000 for each asset not declared, with a minimum of EUR 10,000 per each category of assets.

OTHER TAXES

VALUE ADDED TAX (VAT)

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

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

TRANSFER TAX

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

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

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

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

TAX ON CAPITAL

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

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

INHERITANCE AND GIFT TAX

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

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

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

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

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

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

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

LOCAL TAX ON PROPERTY

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

LOCAL TAX ON BUSINESS ACTIVITIES

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

7 – ACCOUNTING & REPORTING

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

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

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

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

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

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

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

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

Statutory corporate records should include the:

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

OFFICIAL BOOKS OF ACCOUNTS

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

8 – UHY REPRESENTATION IN SPAIN

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Position: Managing Partner
Email: bfay@uhy-fay.com

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

SOCIAL MEDIA CONNECTIONS

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

Year established: 1983
PCAOB registered?: Yes
Number of partners: 23
Total staff: 166

ABOUT US

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

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

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

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

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

BRIEF DESCRIPTION OF FIRM

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

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

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

Over the past 35 years the firm has helped a large number of foreign businesses to establish in Spain and many Spanish businesses in their international expansion.

SERVICE AREAS

Audit & Assurance
 Advisory
 Tax
 Legal
 Internationalization of businesses
 Corporate finance (M&A)
 Corporate Social Responsibility
 Compliance
 Business services
 Labour
 Cyber Security

SPECIALIST SERVICE AREAS

Transfer pricing
 International tax
 Pre-immigration tax planning
 Tax claim & tax litigation
 Corporate reorganization
 VAT
 Forensic accounting
 Due diligence
 Valuation of Business and Shares
 Mergers & Acquisitions
 Business outsourcing
 Cloud Accounting
 Cyber Security
 Equality Plans
 Social Corporate Responsibility

PRINCIPAL OPERATING SECTORS

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

LANGUAGES

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

CURRENT PRINCIPAL CLIENTS

Confidentiality precludes disclosure in this document.

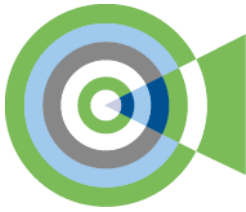
OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

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

BRIEF HISTORY OF FIRM

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

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



LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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

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

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