DOING BUSINESS IN:
SPAIN

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BELLAVISTA

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1. FACTS AND FIGURES:

1.1 CURRENT SPANISH MACROECONOMIC FIGURES

SPAIN	2016
GDP (Gross National Product)	1.200 M/€
Population	46.418,269 people
Foreign population	4.418.157 people
Consumer prices index	-0,2 %
Labor cost per worker yearly	30.643,90 €
Unemployment rate	18,63 %
Activity rate	59,85 %
PUBLIC DEFICIT	4,54 %

INE, 2016

1.2. WHY CHOOSING SPAIN?

1.2.1. INTERNATIONAL BUSINESS HUB

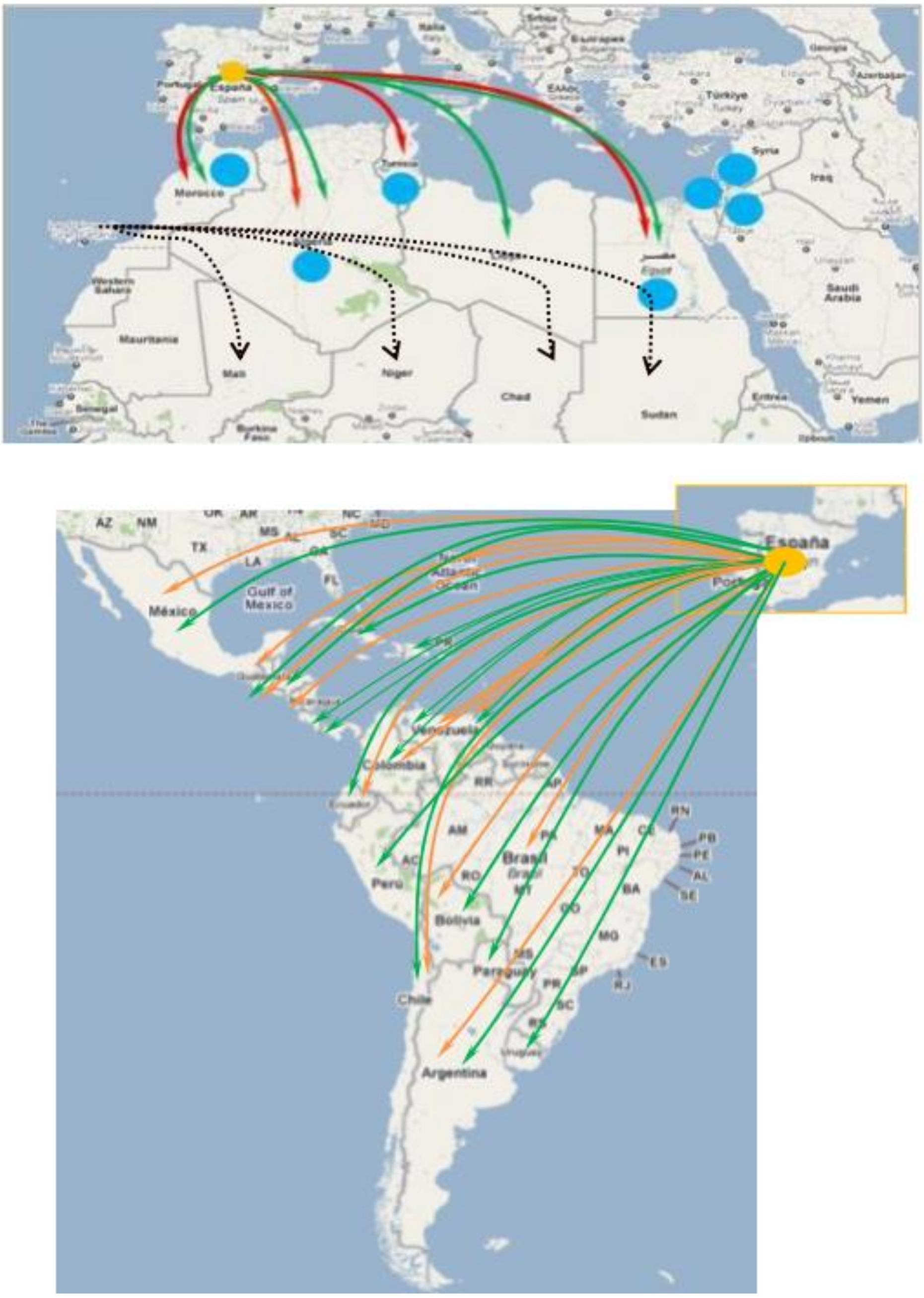
→ Strategic geographic location:

- Exceptional location for key/strategic markets in Southern Europe and Latin America. Spain is the world's 2nd largest investor in Latin America among European countries.
- More than 10.300 foreign companies are already established in Spain, 75 of which are Forbes Top 100 multinationals.

- Key Role of the Spanish Canary Islands Special Zone (ZEC) as a commercial and logistic hub with Africa.

→ Access to 1,3 billion consumers:

- Besides its domestic market, Spain offers a privileged situation as a gateway to the European market, Latin America and North Africa.



Ministerio de Economía Industria y Competitividad. Gobierno de España

→ Ultramodern transportation infrastructure:

✈ Airports

- 170 airlines have scheduled flights, operating out of the country's 47 airports, with Madrid and Barcelona as the main hubs.
- In 2016, 230,2 million of passengers on board registered in the Spanish Airports.

♒ Ports

- Excellent maritime connections, with 46 state-own ports on both the Atlantic and the Mediterranean coasts, with 3 ports among the Top-20 container ports in Europe (Barcelona, Valencia and Algeciras).

Roads

- Spain has the largest EU highway network with 14.701 km.

Rail Network

- Spain is the 3rd largest worldwide (1st in Europe) in High-Speed Network and the European leader with more than 2.500km in service, travelling at an average commercial speed of 222 Km/h. Its total railway network is over 15.500 km.
- More than 80 Technology Parks. Spain is currently working on promoting Spanish technology transfer by signing bilateral and multilateral agreements abroad and has become a world reference in consultancy/engineering and construction/equipment of railways:
  - Spain has become a major reference for the development of high-speed railway in the U.S. in the based on a White House decision, under the Plan for Stimulating the Economy launched by President Obama, to spend an amount aid of 8.000 million dollars to drive/build high-speed corridors in the United States.
  - The Al Shoula Group is a Spanish-Saudi consortium that is made up of twelve Spanish companies and two Saudi companies. The Al Shoula Group has been awarded the high-speed Medina-Mecca project. The Al Shoula Group is lead by ADIF and RENFE Operadora, two Spanish companies. The contract includes the design, construction, operation and maintenance of the 450 km high-speed driveways with double electrified track and trains for a period of 12 years, for an awarding amount of 6.736 million Euros.

1.2.2. ATTRACTIVE ECONOMY

→ 14th largest economy in the world and the 6th in Europe.

→ In 2016, foreign direct investment in Spain reached 28.281M/€.

→ Ranks the 11th exporter of business services worldwide in 2016.

→ The Spanish economy has grown by 3,2% in 2016.

→ Spain offers investment opportunities in sectors and activities with significant added value. Their strong growing potential makes them highly attractive to FDI. In the past five years, one out of every three incoming projects has been in sectors with high technological value and a significant level of R&D&I:

- Spain is 10th world scientific power and 5th by scientific production in the EU15.
- There are about 425 pharma companies in Spain, including some with no production and/or marketing activity. Near to 60% are foreign companies. The pharmaceutical industry is leader in R&D spending in Spain
- Spain is the 2nd largest car manufacturer in Europe and 8th in the world. Spanish Auto-Parts Industry ranks 4th in Europe in terms of Turnover.
- The healthcare technology market: invoiced about 7.000M € and more than 1.050 companies.
- The Spanish Aerospace Industry is 5th in Europe (and 8th in the world) in terms of turnover (€9,7 billion in year 2015) and employment (more than 54.400 employees).
- Spanish Logistics Sector ranks among the top-25 in the world (15th among the EU countries).
- The Renewable Energy Sector as a whole contributed 8.256 Million EUR to Gross Domestic Product (0,76 % of total).
- Water sector in Spain: 24.000 companies, 212.300 jobs and an annual turnover: approx. 32.000 million euros. Moreover Spain is the 1st producer of desalinated seawater in Europe and America.
- Waste management sector: great business opportunities.
- Chemical industry: Strategic Sector, 4,5% annual growth of Chemical products demand forecasted worldwide.

- Nanotechnology: NanoSpain: Spanish Nanotechnology Network (www.nanospain.org) brings together 368 research groups, 50 companies and a research task force of around 23.000 researchers and technicians.

- Agro-food sector in 2015 contributed in 94,938 million euros to Spanish GDP, 9% of total. It employed 2,4 million people. Spain is the world's leading producer and exporter of olive oil and table olives. In 2014, Spain ranks 3th in the world in wine production and has the largest surface area of wine grape vineyards in the world. Spain is the second largest fruit and vegetable producer in Europe.

- Spain Real Estate Investment reached € 11.700 Million in 2015, what it is an increase of around 67% compared to the previous year.

- Tourism: accounts for 10, 9% of GDP in Spain. Spain is the 3rd country worldwide in number of tourist arrivals and 2nd in revenues with more than 65,2 Billion $ in 2015 (1st in Europe) after USA.

- Natural resources: Spain has one of Europe's most diversified mining sectors, which produces mostly industrial minerals and stone

- Textile and Clothing: Spain is one of the top-3 producers in T&C industry in the EU, with more than 8.500 companies.

- Multinationals in Spain represent around 40% of total exports from Spain to third Markets.

- Foreign Companies in Spain account for more than 49% of the total industrial turnover yearly and 33% of the industrial employment.

- These sectors include ICT (Information and Telecommunications Technology), the environment and water treatment, biotechnology and health sciences, aeronautics, aerospace and renewable energies. Mobile World Congress is yearly held in Barcelona becoming the World's Mobile Capital.

- Favorable Tax Treatment for channeling investments:

→ ETVE (Special System for Entities Holding Foreign Securities) for channeling investments towards Central and South America.

→ 90 Double Taxation Agreements which allow an excellent Tax planning strategy.

1.2.3. WORKFORCE

→ Workforce of 22.745.900 people in 2016 (Source: National Statistics Institute).

→ Spain occupies a prominence position in Europe in number of people with tertiary Education (35,1%).

1.2.4. ATTRACTIVE LIFESTYLE

→ Barcelona and Madrid are among Europe's top 10 business cities for expatriates, according to the European City Monitor 2011 report prepared by Cushman & Wakefield.

→ Spain has an outstanding health care system with modern and excellent quality.

→ Stable and controlled framework for businesses and citizens.

→ Rich history and cultural heritage.

→ Unique and internationally famous cuisine.

→ 8.000 km (4.970 miles) of coastline and lovely beaches, with an excellent climate.

→ Spain is the 1st country in Europe in terms of quality of life for ex-pats and 3rd-ranked worldwide

→ Three Spanish business schools (IE, IESE and ESADE) appear among the top 20 in 2016.

→ Spain received 75,3 M of international tourists in 2016.

2. BUSINESS ENTITIES

2.1. STOCK COMPANIES

The most usual Spanish commercial structures are the Stock Company or *Sociedad Anónima* (SA) and the Limited Liability Company or *Sociedad de Responsabilidad Limitada* (SL). These commercial structures must be incorporated by executing a Public Deed before a Public Notary and registered before the Spanish Commercial Register (*Registro Mercantil*). In both cases the investor will only be liable to the extent of his contribution to the capital, and there is no minimum number of partners requirement, one would be sufficient, although specific formalities shall be observed in such case.

The main characteristics of Stock Companies are the following:

- Share capital: The minimum capital required to incorporate a Stock Company is Euros 60.000,00 and at least the 25% of it must be paid up at the time of incorporation. The capital is divided into negotiable shares, which can be either to the bearer or nominative.
- Transfer of Shares: Shares are freely transferable, but should the founders wish to establish certain restrictions to the free transferability of the shares, they must then be of the nominative type and such restrictions must be expressly established in the company's By-Laws.
- Contributions in kind: If contributions in kind need to be made at the incorporation or in subsequent capital increases, a stock company will need a special report drawn up by an independent expert appointed by the Commercial Register.
- Management of the Company: The Company can be managed by a Board of Directors, a Sole Director, two Joint Directors or by two or more Directors with joint and several liability.

2.2. LIMITED LIABILITY COMPANIES

Limited Liability companies are intended for businesses which aim to benefit from the limited liability and from simpler and more flexible legal formalities and documentation requirements. The main characteristics of this type of companies are the following:

- Capital: The minimum capital of a Limited Liability Company is Euros 3.000.00, which must be fully paid in at the time of incorporation and it is divided into "participations", which cannot be represented by negotiable shares.
- Transfer of Participations: The main difference with the Stock Companies is that the transfer of these participations is more restricted, and the existing members have a pre-emptive acquisition right.
- Contributions in kind: If contributions in kind need to be made at the time of incorporation or in subsequent capital increases, the report of an independent expert appointed by the Commercial Register will not be necessary.
- Management of the Company: Like in the Stock Company, the Company can be managed by a Board of Directors, a Sole Director, two Directors or by two or more Directors with joint and several liability.

- Since October 2013, limited liability companies can be set up without paying in the minimum share capital. In this special case, the company will be subject to some specific rules until the minimum share capital is fully paid in, such as the obligation to contribute at least 20% of the annual benefit to the legal reserve, or not to distribute dividends or pay for services rendered by the Directors unless the limits established for these specific companies have been fulfilled.

2.3. PARTNERSHIP

The word “partnership” has in Spain a generic meaning and it refers to the fact that two or more individuals or companies get together for the purpose of achieving a goal or performing an activity. Such word is hardly used in practical terms, as it covers a wide range of figures, from associations (non profit making) to companies (profit making).

A company can be civil or commercial depending on the company object (activity). Nevertheless, the border between civil companies and commercial companies can be very diffuse in the Spanish Law.

One can find four types of commercial companies: general partnerships, limited partnerships, limited liability companies and stock companies. Since both, stock companies and limited liability companies have been earlier described in points 2.1 and 2.2, we will now be referring to the main features of the remaining companies:

- **Civil companies**. They are regulated in Civil Code. No specific form is required with regard to their constitution or regarding to a minimum capital amount to set up the company (unless real estate assets are provided in which case a public deed shall be executed before a Public Notary). Their partners are deemed personally and jointly responsible for the debts of the company in proportion to their share in the subscribed capital and for the subsidiary liability respect to the company.

- **General partnership companies** (“*sociedades colectivas*”). They are regulated in the Commercial Code. Their constitution must be recorded in a public deed executed before a Public Notary which must be registered in the Mercantile Register. There is no minimum capital requirement for setting up this kind of companies. Their partners are jointly, severally, and unlimitedly liable, for the debts of the company. Nowadays, these type of companies hardly exist in practice.

- **Limited partnership companies** ("*sociedades comanditarias*"). They are regulated in Commercial Code. Their constitution requires a public deed executed before a Public Notary which must be registered in the Mercantile Register and no minimum capital is required for setting up the company. There are two types of partners: general partners and limited partners. The administration and representation of the company is entirely up to the general partners, who are responsible in the same way as partners of a general partnership companies. The limited partners' liability is limited to the amount of their contributions. Nowadays, these types of companies hardly exist in practice.

2.4. BRANCH OF A FOREIGN CORPORATION

A branch is an establishment other than the principal place of business that forms part of a corporation. It does not have its own separate legal personality or share capital. Businesses which establish a branch will be liable with their own assets for the branch's obligations and responsibilities. Branches can engage in business activities on behalf of the mother company and they normally enjoy management independence.

To set up a branch in Spain, a public deed must be signed and registered at/before the Mercantile Register. It is also necessary to deposit the share capital in a bank account, and apply for a tax number. The branch must have a legal representative with authority to manage its affairs. It does not need to have any formal managing or administrative bodies as such, and it largely operates as if it were a company in its commercial dealings with third parties.

The main requirements for granting/executing the deed are: a certificate that proves the existence of the parent company, issued by the institution in charge of the registration of the company in the respective country, a copy of the Memorandum of Association of the foreign company with a sworn translation into Spanish, and a certification of the Minutes with the decisions of the parent company about the creation of the branch and the appointment of Directors.

2.5. JOINT VENTURES

Joint Ventures are quite common in commercial practice in Spain. Although they are not specifically foreseen in the commercial Spanish laws, they are executed in practice according to the Spanish general rules applicable to contracts.

Sometimes the Joint Ventures are created by means of a Temporary Business Association (*Unión Temporal de Empresas: UTE*) which allows several companies to operate together in one common project for a limited period of time. The UTE has not legal entity. This form of association is usual in engineering and construction projects.

A UTE is formed by Notarial deed and is registered in the Special Registry of UTEs of the Spanish Ministry of Economy. However, UTEs must comply with bookkeeping and accounting requirements similar to those of companies. From a tax point of view, UTEs have a specific regime: tax transparency.

2.6. TRUSTS

Unlike other legal systems, trusts are not regulated or recognized in the Spanish Law therefore no legal status is recognized to them. If a trust that has been constituted in accordance with statutory legislation in other countries tries to be recognized in Spain, it will be deemed as if the assets that were contributed to the trust remain as property of the person or persons that made the contribution.

2.7. MERGERS

A merger is a process through which two or more commercial companies get integrated into a sole company by the transmission of all their assets and the assignment of the shares of the resulting company to the partners of the companies which are to be extinguished. The resulting company can eventually be constituted as a new company (merger by constitution) or it can be the result of an absorption/ acquisition (merger by absorption/acquisition).

In practice, mergers may allow to strengthen the competitiveness of the businesses by simplifying material resources, unifying strategies and reducing management costs. It can also be used for restructuring a group through the acquisition of a subsidiary by the parent company or the other way round.

The following steps are compulsory for the merging process:

- **Merger balance sheet:** Each participating company has to draw up its merger balance sheet. When the participating company is required to audit its annual accounts, then the merger balance sheet must be audited.

- **Common merging draft:** it includes all the elements of the merger on which subsequent decisions are going to be taken by the shareholders meetings of all the companies involved. Once the draft is subscribed by the directors of the participating companies, it must be inserted on the company's web site (or, in some cases, in the Mercantile Register) and it must be published in the Gazette of the Mercantile Register.

- **Report of the managers and independent experts about the common merging draft**: in order to get a faster implementation and to ease up the whole procedure, its elaboration will not be required in some cases.

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- **Merger agreement:** Once the partners and the other interested parties have been informed about the merger, the shareholders of all companies involved must adopt the agreement of the merge in their respective meetings, according to the merging draft. Once the merger is approved it will be published and, after at least one month, the merger public deed will be granted. During the one month waiting period, creditors may exercise their preemptive rights.

- **Register of the merger**: the final implementation will take place once the merger's public deed has been registered in the Mercantile Register.

Upon the fulfillment of certain requirements and if the operation is made for valid economic reasons, a specific tax regime of deferment can be applied.

2.8. SPIN-OFF *("ESCISIÓN")*

A spin-off or division is the process of breaking up the economic forces of a company, consisting of the separation of the assets of a registered company into two or more parts in order to contribute them to another or others companies.
The division of a company is intended to avoid excessive growth of an entity by adapting it to the sector particularities, or to create a kind of business collaboration by integrating parts of the assets of the different entities into another one, for the development of joint business deals. It may also be used to solve conflicts between partners upon different criteria about the means to achieve the company social purposes.

The division can adopt any of the following modalities:

- Total division: it implies the termination of a company, dividing its assets into two or more parts, each of which is totally transferred to a new company or absorbed by a formerly existing company, distributing to the partners an amount of shares of the beneficiary companies in a proportion corresponding to their participation in the company that gets divided and terminated.

- Partial division: it consists of transferring one or more parts of the assets of a company (each of which forms an economic unit) to one or more newly incorporated company or formerly existing companies, distributing to the partners of the beneficiary companies an amount of shares proportional to their participation in the company that gets divided, which will reduce its share capital in the required amount.

- <u>Segregation</u>: it means transferring one or more parts of the assets of a company (each of which forms an economic unit) to one or more companies. The segregated company will receive in exchange an amount of shares of the beneficiary companies proportional to their contribution.

The legal framework of the division refers to the one that regulates the mergers (except for certain particularities).

Upon the fulfillment of certain requirements and if the operation is made for valid economic reasons, a specific tax regime of deferment can be applied.

2.9. FOREIGN COMPANIES AND/OR INDIVIDUALS IN SPAIN

Tax Identification Number (N.I.F.) and Foreign Identity Number (N.I.E.)

The applicable Spanish legislation currently requires that any individual or legal entity with economic or professional interests in Spain, or involved in a relevant way for tax purposes, must hold a Tax Identification Number (NIF) in the case of legal entities or a Foreign Identity Number (NIE) for individuals. For example they must be obtained in order to set up a company or a branch, and therefore all foreign shareholders and directors of Spanish companies must have NIF or NIE.

NIF is issued free of charge and NIE at a small cost.

In order to obtain the NIF, a specific form must be filed and submitted to the competent Spanish tax authorities, submitted along with certain documentation, and the number will be automatically assigned.

The NIE can be obtained in Spain at the Police Station, or if abroad, at the Spanish diplomatic missions or consular offices.

Foreign individuals and companies can be appointed as Directors of Spanish companies.

3. ACCOUNTING AND AUDITING

3.1. ACCOUNTING

The Spanish accounting principles are contained in the Spanish National Chart of Accounts, enacted in accordance with the Royal Decree 1514/2007. Subsequently, the Royal Decree 1159/2010 partially modified (partially) the aforementioned principles and approved the Standards for the Preparation of Consolidated Accounts. The Spanish accounting principles are in general terms harmonized with IAS regulations.

The reporting requirements will vary according to the company size. Find below a table with the three established limits on the features defining each business size. Two limits must be surpassed for two consecutive financial years to get a new status (size wise) and consequently different requirements.

Limits	Small Companies	General companies	Consolidated Groups
Total Assets	Up to € 4 million	+ € 4 million	+ € 11.40 million
Sales	Up to € 8 million	+ 8 million	+ € 22.80 million
Staff	Up to 50	+50	+250

At the end of each financial year, which may not necessarily match with the calendar year, all companies must deposit their annual financial statement. The annual financial statement consists of the balance sheet, the profit and loss statement, the statement of changes in net equity and the annual report in a public registry. Except for 'Small companies' the annual statements must also include the effective cash flow statement.

3.2. AUDITING

Companies that comply with these three requirements are free from being audited: Total assets up to € 2.85 million, Sales up to € 5.7 million and Staff up to 50. For the rest of them an audit must be conducted on their annual accounts. An auditing firm or an auditor must be enrolled in the Official Auditors Registry.

4. TAX LAW

The taxes in Spain can be classified as follows:

a) Direct state taxes:

» Taxes on Income:

- Individual Income tax (Impuesto sobre la Renta de las Personas Físicas).
- Non-resident Income tax (Impuesto sobre la Renta de No Residentes).
- Corporate tax (Impuesto sobre Sociedades).

» Wealth taxes (only for individuals):

- Wealth tax (Impuesto sobre el Patrimonio).
- Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones).

b) Indirect state taxes

» Value added Tax (IVA).

» Estate Duty (Impuesto sobre Transmisiones Patrimoniales y Actos jurídicos Documentados).

» Special Taxes (Impuestos especiales): alcohol, hydrocarbon and tobacco.

» Import Taxes (Derechos arancelarios a la importación).

» Insurance Premium Taxes (Impuesto sobre las Primas de Seguros).

c) Regional Taxes (tasas y contribuciones especiales).

d) Town council taxes:

» Real Estate Tax (Impuesto sobre Bienes Inmuebles).

» Economic Activities Tax (Impuesto sobre Actividades Económicas)

» Tax on Mechanic Traction Vehicles (Impuesto sobre los Vehículos de Tracción Mecánica).

» Tax on Constructions, Installations and Works (Impuesto sobre Construcciones, Instalaciones y Obras).

» Local capital gain (Impuesto sobre el Incremento de Valor de Bienes de Naturaleza Urbana). This Tax is accrued at the time transfer of the Real Estate is produced.

The most important are:

4.1. TAXES ON INCOME:

4.1.1. Individual Income tax

Taxable persons: Residents

An individual is resident in Spain for tax purposes if:

- The individual stays in Spain for more than 183 days in any calendar year.

- His/her center of vital interests i.e. his/her economic interest or business or professional activities are in Spain.

- A married individual is deemed to be a resident in Spain if the permanent home of his spouse and dependent minor children is in Spain, unless proved otherwise.

Spanish nationals who move their residence to a tax haven country remain taxable on the worldwide income in the year of emigration and the subsequent four years.

Individuals who move their habitual residence to Spain with an employment contract can opt to be taxed under this tax or under Non Residents Income Tax (see Non-Residents income Tax) for the period which exercises the option and during the 5 following Tax periods. The individual is considered Spanish resident for Double Tax Treaty purposes but only pays taxes in Spain for the assets located here.

UE residents and Non-residents in Spain can opt to pay as residents in Spain without losing their Non-resident status if at least 75% of their income comes from Spanish labor or economics activities.

Taxable income:

Residents are taxed on their worldwide income. Non-residents are liable to Non Residents Income Tax only on their Spanish-source income (see 4.1.2).

The taxable income is classified into the following five categories:

1. Employment income.

2. Savings income (income from movable or immovable property, e.g. dividends, royalties, interest, real estate…).

3. Business income.

4. Imputed income.

5. Capital gains.

Exemptions on income:

The most important are:

- Salaries earnings from work performed in a foreign country with an income tax similar to the Spanish income tax are exempt up to EUR 60.100.

Tax incentives:

- Incentives for the expenses of I+D and IT activities.

- 20% tax credit on the acquisition value of the shares in new companies (under certain conditions). The maximum invested amount for tax purposes cannot exceed EUR 50,000 annually. Exemption on the capital gains on those companies when there is a reinvestment in other new company.

- Tax credit on reinvestment of profits from January 1st, 2013.

Rates

a) The general taxable base, reduced with some personal and family allowances, is taxed in accordance with the following progressive rate table:

Taxable income (EUR)		Tax on lower Amount (EUR)	Rate on excess (%)
Up to	12.450,00	0	19%
12.450,01 -	20.200,00	2.365,50	24%
20.200,01 -	35.200,00	4.225,50	30%
35.200,01 -	60.000,00	8.725,50	37%
60.000,01 -	And over	17.901,5	45%

The different regions have approved their own taxable base that modifies the general table above.

b) Savings Income and capital gains. Are subject to taxation at the following progressive rates:

Taxable income (EUR)		Rate on excess (%)
Up to	6.000	19%
6.000,01 -	44.000	21%
44.000,00 -	and over	23%

Withholding taxes:

Income	Withholding tax
Employment income	General withholding taking into account the personal and family circumstances of the taxpayer.
Directors' remuneration	35%
Entrepreneurs,self-employed professionals,artists and athletes.	15% and 7% during the first 3 years.
Business Rents	19%
Dividends, interests, royalties and life and disability insurance	19%
Investment funds and stock market shares capital gains	19%

4.1.2. Non Resident Income Tax (applicable to individuals and corporations)

4.1.2.1. Non-resident acting through a permanent establishment (PE).

The non-residents income, either coming from Spain or from a foreign source attributable to the PE in Spain, is subject to the non-resident income tax.

Rates

Generally, the PE taxation on Spanish source income and capital gains at the general rate of Corporate Tax (see 4.1.3).

In addition, a 19% tax on the profits of the branch applies to any after-tax profits paid by Spanish PE to its foreign head office. The remittance abroad must be reported to the local tax office in a tax return filed within 1 month of the remittance. The branch profits tax is not levied on permanent establishments of companies resident in other EU Member States. Residents of countries with which Spain has a tax treaty, may have this tax applied only where expressly allowed in the treaty and as long as the other country also levies a similar tax on remittances to Spain.

In computing taxable profits of a branch in Spain, payments to a foreign head office of passive income (e.g. royalties, interest and rents), payments for technical assistance, for the use of property or for the use of rights may not be deducted.

4.1.2.2. Non-resident acting without permanent establishment (PE).

Non-residents are subject on their Spanish-source income and capital gains.

Exemptions

The most important are:

- Interest obtained by non-residents without PE from their bank deposits in Spain.
- Interests and capital gains from public bonds.
- Interest and capital gains from movable property obtained by EU residents (excluding: capital gains from substantial (25%) shareholdings and shares and similar rights in real estate companies; or obtained through Tax Haven country) .
- Capital gains from the sale of the shares quoted and transferred on a Spanish stock exchange derived by non-residents without PE if the taxpayer is a resident of a country with which Spain has an income tax treaty including an exchange of information clause (contained in all of the Spanish Treaties).

Withholding taxes:

Income	Withholding tax
General	24% (in general, deduction of expenses are not allowed, except for UE residents)
Seasonal workers	2%
Dividends and interests (no resident bank account income is exempt)	19% (21% in 2012 and 2013)
UE interests	0%
UE dividends	Parent-subsidiaries: 0%
UE capital gains (except: real estate companies, awards and %>25%)	0%
UE Royalties from related companies	0%
Pensions	8%/30%/40%

There is a withholding tax concerning sales of real estate, under which purchasers of Spanish real estate owned by non-residents without permanent establishment must withhold 3% of the price.

4.1.2.3. Special real estate Tax

Non-resident companies, located in tax heaven countries and holding Spanish real estate or usufruct must pay annually the 3% of the cadastral value.

4.1.3. Corporate Income Tax

Taxable corporations: Residents

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

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

Taxable income:

Resident companies are taxed on their worldwide income and capital gains. The taxable income is generally calculated using a direct method of computation based on taxpayer's accounting records.

Deductions

Business-related expenses are deductible. Non-deductible items include dividends and similar distributions, the Corporate tax itself, penalties and fines, certain expenses paid to residents in listed tax havens and all gifts except those to qualifying beneficiaries (e.g. Foundations).

Tax incentives

- Patent box tax regime. The incentive will apply to the license of assets.
- Research & development (R&D) technological innovation tax credit.
- Credit for the creation of employment for disabled workers starting.

Rates

a) The general tax rate is 25%.

b) Newly created companies with an annual turnover not exceeding EUR 10 million are taxed at a rate of 15%.This is applicable during the first year of positive result and the following year.

Holding companies (ETVE)

Entities whose business purpose includes the supervision and the management of participations in non-resident entities may benefit from the participation exemption regime. Under this regime, dividends and other profit distributions and capital gains from non-resident companies are exempted from corporate tax (please note that certain conditions have to be met). Also, the distribution of profits from holding company to non-resident shareholders is exempted, unless the beneficiary is resident in a listed tax haven.

Double taxation relief

There are two methods to avoid double taxation of foreign-source income: the exemption and ordinary tax credit methods.

4.1.4. Anti-Avoidance Rules

Some specific rules may be applied in transactions between a Spanish company and a resident in a tax haven country or a low taxation territory:

a. The tax haven company may be considered resident in Spain if its main assets are, directly or indirectly, located in Spain and its main activity is performed in Spanish territory with some exceptions.

b. The expenses related to services rendered are not deductible (except if it is possible to prove that the service is real and necessary).

c. Operations will be valued at the market price although both companies are not related parties.

d. Non application of the exemption to avoid international double taxation.

e. Strict money laundering prevention rules apply.

Transfer pricing

- In Spain the EU and OCDE criteria applies: Operations between related companies must be performed at market prices (arms length). The main methods to determine the market price are:

  - Comparable free price.
  - Increased cost.
  - Resale price.
  - Distribution of results.
  - Net margin of the set operations.

- Management fees: For a correct application of the costs, the companies involved have to:

  - Describe the services provided.
  - Analyze the costs incurred.
  - Justify the mark-up to be applied.
  - Comparison between the cost applied and the market value.

- Adaptation to the BEPS' provisions.

- Cost sharing: it is a concept similar to the management fees that takes into account the share in the risks and the results of the participants.

Thin-capitalization rules

For tax periods commencing on or after January 1st 2012, the thin capitalization rule has been abolished and replaced by a general limitation on the deduction of borrowing costs.

The new regime places a ceiling on deductibility of the net borrowing costs. The ceiling is equal to 30% of the (adjusted) operating profits for the relevant period and is subject to the following rules:

- Net borrowing costs up to EUR 1 million per tax period will be deductible in any case (a safe harbor rule); and

- Any net borrowing costs that have not been deducted may be carried forward for the following years.

Entities that are taxed as part of a consolidated tax group must apply this ceiling in relation to the whole group, subject to certain conditions.

Controlled foreign company (CFC)

Spanish companies or individuals shall include as income certain passive benefits obtained by a non-resident company (except UE Estate members) if:

- Spanish company or the individual holds, directly or indirectly, a stake of at least 50% and

- The non-resident company pays taxes under 75% of the overall taxes it would be charged in Spain on the same revenue.

4.2. VALUE ADD TAX (IVA).

The Spanish tax is levied on:

- The supply of taxable goods and services in Spain by an entrepreneur within the scope of this business.

- The intra-Community acquisition of goods.

- The importation of taxable goods into Spain by any person.

The taxable persons are individuals or corporate entrepreneurs making taxable supplies of goods or services.

Exemptions

The most important are:

- Medical and social services.
- Educational and sports services.
- Financial operations and insurance contracts.
- Lease of certain types of immovable property.
- Some real estate purchases.

Rates

The IVA rates in mainland Spain and the Balearic Islands are:

Type of rate	Rate (%)
General	21%
Reduced rate (goods, dwellings, transport, tourism, …)	10%
Super-reduced rate (basic necessities)	4%
Export-related goods and services	0%

Different rates are levied in the Canary Islands.

<u>Non-residents</u>

Non-resident entrepreneurs, except EU residents, are required to appoint a tax representative before the tax authorities.

Foreign entrepreneurs who are VAT taxpayers under Spanish law may apply the general refund scheme for the recovery of the VAT input. A special refund scheme applies if:

- The entrepreneur is a resident of an EU Member State or of a country that grants reciprocal treatment to Spanish entrepreneurs; and

- The entrepreneur has carried out only exempt transport transactions, or supplies of goods or services for which the reverse charge mechanism applies.

4.3. OTHER TAXES:

4.3.1. Wealth Tax (Impuesto sobre el Patrimonio).

From exercises 2008 to 2010, wealth tax was abolished. However, temporarily from 2011 at present was restituted with a general exemption of 700.000 euros and 300.000 for habitual home.

4.3.2. Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones).

This tax is levied on property, assets and rights transferred between individuals by gift or upon death. Gratuitous transfers to Corporations are not subject to this tax.

An individual who resides in Spain is liable to this tax with regard to property owned in Spain or abroad, acquired through a gratuitous transfer.

Non-resident individuals are subject to this tax:

- With regard to any assets or rights placed in Spain.

- With regard to life insurance policies with a Spanish insurance company.

Taxable income:

Transferred assets are valued at their real market value (in some cases may be different from the fair market value). For inheritance tax purposes, the value of the deceased's household furnishing is assumed to be 3% of the heritable mass.

For inheritances, the taxable base of the estate is reduced by the family allowances provided by law, if applicable. There is also a 95% deduction of the value of the family business, qualified holdings and the permanent residence of the deceased.

For gifts, the family allowances and the 95% deduction of the permanent residence are not applied. The 95% deduction of the value of the family business and qualified holdings only apply if, besides other conditions, the transferor is older than 65 years old.

The autonomous regions of Spain are authorized to set up their own tax rates within certain limits. If a region fails to set up its own rates or the taxpayer or the deceased taxable individual is a non EU resident, the progressive rates, applicable by default, according to the general law are:

Taxable income (EUR)		***Tax on lower amount (EUR)***	***Rate on excess (%)***
Up to	7.993,46	0	7,65
7.993,46-	15.980,91	611,50	8,50
15.980,91 -	23.968,36	1.290,43	9,35
23.968,36 -	31.955,81	2.037,26	10,20
31.955,81 -	39.943,26	2.851,98	11,05
39.943,26 -	47.930,72	3.734,59	11,90
47.930,72 -	55.918,17	4.685,10	12,75
55.918,17 -	63.905,62	5.703,50	13,60
63.905,62 -	71.893,07	6.789,79	14,45
71.893,07 -	79.880,52	7.943,98	15,30
79.880,52 -	119.757,67	9.166,06	16,15
119.757,67 -	159.634,83	15.606,22	18,70
159.634,83 -	239.389,13	23.063,25	21,25
239.389,13 -	398.389,13	40.011,04	25,50
398.389,13 -	797.555,08	80.655,08	29,75
797.555,08 -	and over	199.291,40	34,00

In several autonomous regions (*Comunidades Autónomas*) the effective rate after reductions is very low (less than 1%). To the EU residents will apply the reductions, allowances and tax rates of the autonomous regions where the value of their assets is higher.

Net wealth-related surcharge

The final tax liability of the beneficiary is the amount resulting from applying fixed surcharges on the basic tax due by reference to the beneficiary's net wealth before receiving the inheritance or gift in question and his family relationship with the deceased or the transferor.

4.3.3. Estate Duty

a) Capital Duty: is generally levied on the decrease of capital and liquidation of companies. The contribution of capital to a company or a branch (constitution and the increase of capital are tax exempted. Generally the duty is 1% on the value of the assets contributed/refunded. Merger and acquisition operation are not subject to Estate Duty.

b) Transfer tax:

- 6% (7%-10% in most autonomous regions) on the second and subsequent transfers of immovable property and rights thereon. No transfer tax is levied when the transaction is subject to VAT.

- 6% (7%-10% in most autonomous regions) of the transfer of qualifying real estate shares.

- 4% on the constitution and transfer of rights on movable property and on the granting of any administrative concession.

c) Stamp duty: Generally 0.5% on officially documented acts which are formalized in Spain. Stamp duty is compatibly levied with VAT.

4.3.4. Real State Tax

This tax is levied annually on the possession of a real estate. The general tax rates are 0.4% on the cadastral value for urban property and 0.3% for rural property, but higher rates may be applied depending on the municipality.

5. LABOR AND SOCIAL SECURITY LAW

5.1. LABOR LAW

Basic Scheme:

WORKERS' STATUTE

(ESTATUTO DE LOS TRABAJADORES)

The Workers' Rights and Duties Statute contemplates the minimum rights and duties of workers and companies and sets up the minimum rights for both parties

SPECIAL REGIME

For these employees that have a special kind of relation with the employer such as Directors, Domestic Servants or others.

Each industry is regulated by its own**"CONVENIO COLECTIVO" COLLECTIVE** AGREEMENT which in turn follows the main guidelines set up in the **"ESTATUTO DE LOS TRABAJADORES**"

Relevant facts:

- Working hours are 40 per week.
- 30 calendar days per vacation a year and 14 days for national holidays.
- Contracts start with an indefinite employment agreement with a trial period.
- Indefinite contracts start with a trial period.
- In reality most of the bonuses to be deducted from the contributions made to the Social Security when unemployed people are hired have disappeared due to the need of cuttings into the Social Security system brought about by the crisis. However, there still are bonuses for long term unemployed people (more than one year in unemployment) or disabled people.

Nevertheless, part–time recruitment of young people who are training or young people without training or work experience (the so-called “minijobs”) are being encouraged with bonuses. The hiring of 45 years or older long-term unemployed by young entrepreneurs under 30 years of age will also have a 100% reduction of the social security contributions.

- Likewise, recruitment is encouraged by lowering the contributions made for the employer to the Social Security when recruiting replacement employees during periods of maternity leave, disadvantaged and disabled people, and when recruiting employees to replace others early retired.

- Salary payment is divided in 12 monthly installments with two extra payments in summer and Christmas.

- For European citizens belonging to the EC no work and residence permit is required.

- For Non-EU citizens: an entry visa, residence and work permit is compulsory as well as a special working authorization in certain sectors and activities.

- Termination of the labor relation may occur for the following reasons:

  - Worker´s resignation with a prior notice of 15 days.
  - End of a temporary agreement.
  - Dismissal of the employee.
  - Disciplinary dismissal.
  - Dismissal due to economic, technical, organizational, or /and productivity reasons.

- In all the above mentioned situations, there is an existing regulation that applies to economic compensation, as severance pay, or to legal matters as to solve conflicts.

- Entrepreneurs: It has been given a major boost for those who establish for the first time as self-employed, lowering their Social Security contributions of 80% during the first six months and between 50% and 35% in several sections up to 18 months from their registration. For young people under 30 years of age or women under 35 years old also a scale that goes from an initial 80% down to 35% for 30 months.

5.2. SOCIAL SECURITY

Basic Scheme:

Social Securiy is based on solidarity and universality principles.

Companies and workers contribute as follows:

- **Companies with 34% or 40% of the salary paid.**
- **Workers with 6,35€ of their salary.**

COVERAGE GRANTED BY THESE CONTRIBUTIONS ARE:

UNEMPLOYMENT (except resignation of the employee)

Retirement pension

TEMPORARY ILLNESS

MATERNITY
PREGNANCY RISK
PATERNITY

PERMANENT INCAPACITY

WIDOW´S OR ORPHAN´S PENSION

Relevant facts:

- Part of the amount contributed by the companies goes to a Salary Guarantee Fund that is set up to cover any compensations or salaries in case of closure or dismissals for economic reasons (abovementioned).
- People who do not qualify for any benefit for several reasons may, under certain circumstances, be granted a non contributory pension.
- Self employees do have exactly the same benefits except unemployment coverage. However, it can be implemented, if that is the worker´s choice, with an increase in quota. This special regime has some exceptions relating to rights and amounts.

- The retirement-pensions system has been during the past five years under continuous legal reforms in order to find a sustainable system that guarantees future pensions in an environment of increased life expectancy and lower number of contributors. The ordinary retirement age has been raised from 65 to 67 and the computation for the calculation of dues from 15 to 25 years. Also the requirements for early retirement have been tightened.

6. PROTECTION of INTELLECTUAL PROPERTY & TECHNOLOGIES

In Spain the legislation and the Courts grant a high level of the intellectual Property rights, acknowledging its protection under the 20 Section of the Spanish Constitution.

Spain has ratified the main international Treaties and Agreements dealing with Intellectual Property rights. Among others, Spain is a signatory State of the Treaty that established the World Intellectual Property Organization ratified on the 12th of May 1969. Spain is also a member of the Paris Convention for the Protection of Intellectual Property, ratified on the 13th December 1971 and a member of the Agreement which establishes the World Trade Organization, ratified on the 30th December 1974. Spain is also a signatory state of the Agreement that deals with the aspects of the Intellectual Property Rights and Trade.

Spain protects the Intellectual Property rights throughout the following protection systems:

- Through the Copyright System, those original artistic creations expressed by any means or support are protected such as pictorial, photographic, literary, scientific, musical, audiovisual, architectural, sculpture and applied works of art.

  Through the abovementioned system, the protection of the database and computer programs that meet the established requirements is acknowledged as well.

  Furthermore, the rights for musical and audiovisual producers as well as to the artists and interpreters are acknowledged too.

- Through the Trademark System, a protection of the distinctive signs which distinguishes products and services is obtained.

Protection of the trademark in Spain can be obtained through the three available systems:

International system: as a member of the Madrid System, Spain acknowledges protection to those international trademarks which have appointed its protection in Spain.

Community system: as a member of the European Union, those community trademarks shall have protection in all the Spanish territory, such like any other trademark.

National system: if the trademark protection is desired specifically in Spain, it can be obtained applying directly to the Spanish Office for Patents and Trademarks (SPTO).

- Through the Patents system, the protection of those inventions meeting the three legal established requirements shall be obtained.

  In this sense, as a member of the European Patent Convention (EPC) the protection of a patent in Spain shall be obtained by means of a unique procedure applying to this system.

  At the same time, it allows to improve the filing (not the concession) of a patent applying to the system regulated in the Cooperation Treaty regarding Patents (PCT). Precisely, the OEPM is the Office for International Searching and International Preliminary Exam, being possible to make all the international steps in Spanish.

  Additionally, the OEPM forms part of the Patent Prosecution Highway (PPH); which consists of a collaborative structure among intellectual property offices, throughout bilateral and multilateral agreements. It allows to speed up the procedures for the concession of patents. Currently, Spain has bilateral agreements with: Canada (CIPO), Japan (JPO), United States (USPTO), Finland (NBPR), Russia (Rospatent), Portugal (INPI), Korea (KIPO) and Mexico (IMPI).

- Through the design protection system the aesthetic two-dimensional or tridimensional appearance which is new and has a singular character can be obtained.

  The protection of the designs shall be obtained at the domestic level by recording them in the OEPM, or at the European Community filing applications at the EUIPO (European Union Intellectual Property Office).

- Finally, it must be pointed out that Spain grants an important protection to the know-how and to the Trade and Industrial Secrets, mainly through the Unfair Competition Law.

  On the other hand, it is important to underline that Spain is a pioneer country in granting a high level of protection of the personal data and in regulating the e-commerce, being an active member in the international harmonization of the legislations in regards to these matters in order to achieve a perfect operation of the knowledge and of the loyal ethical global market.

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