

PRESS RELEASE

SPAIN: Tax Reform 2015

Corporate Income Tax

On January 1, 2015, the Spanish Corporate Income Tax (CIT) reform will come into force; its most relevant changes are summarized below.

a) Positive changes of note:

- The general CIT rate will be gradually reduced from 30 % to 25 % (28 % in 2015).
- Exemption of participations: Dividends and capital benefits derived from the transmission of shares (of both Spanish and foreign companies) are completely tax-exempt provided that the participation is at least 5% or, if not, the acquisition price surpasses 20 million euros.
- The amortization table for material assets is simplified.
- Regarding related party transactions, the scope of related enterprises is reduced and the documentation required for groups with a revenue of less than 45 million euros is simplified.
- A capitalization reserve is created allowing the deduction of 10% of the increase in the shareholders' funds from the tax base.
- An alignment reserve is created for enterprises that invoice less than 10 million euros, meaning a 10% deferral of the tax base.
- The tax consolidation scope is widened.

b) On the other hand, the new law introduces some changes which increase the taxation of enterprises, basically by enlarging the tax base:

New non-deductible expenses are introduced

- Impairment of material assets, property investments and intangible assets, including goodwill.
 - Interests of intra-group participating loans.
 - Expenditure with related enterprises which, due to a different tax qualification, do not generate any income or generate tax-exempt income or income subject to a nominal tax rate lower than 10% (hybrids).
 - Public relations expenses exceeding 1% of net revenue.
- The limitation for the deductibility of financial expenses is maintained (30% of EBITDA) although, if it is generated by the acquisition of participations, an additional limitation is incorporated, applicable in case of tax consolidation or merger.
 - Negative tax bases from previous exercises may be compensated by up to 70% of the positive tax base, although this limit does not apply before reaching 1 million euros.
 - Tax authorities may check the negative tax bases and discounts pending to be applied which correspond to the previous 10 exercises.
 - The international fiscal transparency system is toughened.

Personal Income Tax, Non-Resident Income Tax and VAT

Together with this new law, the Personal Income Tax (IRPF) and the Income Tax for non-residents (IRNR) are also reformed effective January 1, 2015, with a general reduction of said taxes as well as VAT (basically technical changes or derived from community case law).

Inheritance and Donation tax

Finally, and as a consequence of the judgment of the European Union Court of Justice dated September 3, 2014 (case C-127/12), non-residents obliged to pay Spanish inheritance and donation tax may now benefit from the reductions and allowances regulated by their corresponding autonomous community, instead of applying the always more burdensome state regulations. Furthermore, this judgment entitles the taxpayer to solicit reimbursement of the amounts overpaid in the previous four years.

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