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Spain – 2014 Budget Law Maintains High Taxation, but Hope for Cuts in 2015

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At the end of December 2013, Spain promulgated its budget for 2014.[1] In many respects, the budget merely extends rates, allowances, and other tax measures that were already in place for the previous years. As such, there are no significant changes with respect to individual taxation.

Why This Matters

For assignees to Spain and assignees from Spain subject to Spanish taxation, tax costs are going to remain high in 2014 as compared with three to five years ago. Although, with few changes and mostly extensions of prior years' measures, taxpayers can count on some degree of stability with respect to their tax affairs this year. However, as the economy has emerged from a challenging recession, the government is optimistic that it will reform the personal tax system next year, introducing tax reductions and other reforms. International assignment program managers and tax directors should be prepared for the possibility of significant changes in 2015.

Below we discuss the principal tax measures affecting individuals in the new budget Law 22/2013. Many of the tax measures described in this newsletter were enacted by means of prior regulations – Law 22/2013, in many cases, merely extends their application for the 2014 fiscal year, and does not introduce any significant amendments thereto.

Personal Income Tax

Law 22/2013 expands the "timeline" application of certain personal tax measures introduced by prior regulations and updates various figures and coefficients used for Personal Income Tax purposes, as briefly described below.

Extension for 2014 of Personal Income Tax(PIT) Complementary Surcharges

The government has extended for 2014, (1) the complementary surcharges for both general income (e.g., income from employment, certain capital gains) and savings income (e.g., investment income, interest, dividends, certain capital gains), and (2) the increase of the applicable PIT withholding tax rates.[2]

Therefore, general income will remain subject to taxation at a potential maximum tax rate of 56 percent, with savings income subject to taxation at a maximum tax rate of 27 percent.

State General Tax Scale

For 2014, the general progressive income tax rates and thresholds are as shown in the table on the next page (same as in 2012 and 2013).

Net taxable base (up to Euros)		Applicable rate (%)
0	17,707.00	24.75
17,707.00	33,007.00	30
33,007.00	53,407.00	40
53,407.00	120,000.00	47
120,000.00	175,000.00	49
175,000.00	300,000.00	51
Over 300,000.00	----	52

The budget made no changes to the following with respect to taxation of individuals:

- Personal allowances
- Child allowance
- Parental allowance.

Capital Gains and Coefficients for Updating Acquisition Values

For purposes of determining capital gains taxation, the acquisition cost of an asset is indexed by applying a coefficient (*Coeficientes de actualización del valor de adquisición)* published annually by the budget law, based on the year of acquisition. Law 22/2013 establishes the new coefficients for determining the acquisition value to be used for the purpose of assessing the capital gain or loss derived from the transfer of real estate assets not related to any economic activities (refer to Law 22/2013 article 62). The capital gain or loss on property sale is computed as sale/transfer price minus acquisition cost (acquisition price and related expenses) and minus depreciation, as allowed by law.

There are no changes to the capital gains tax rates in Law 22/2013.

First EUR 6,000: 21 percent

EUR 6,000 – EUR 24,000: 25 percent

EUR 24,000 and over: 27 percent

KPMG Note

The new coefficients could help taxpayers achieve some important tax savings, especially with respect to assets held for a long time. The updated values may help reduce the taxable difference between the acquisition value and the price upon disposal of the assets – this effectively lowers the taxable base, which, in turn, reduces the final tax bill.

Nonresident Income Tax

Nonresident Income Tax rates in place for 2012 and 2013 are extended for 2014. Consequently, the general Nonresident Income Tax rate for 2014 remains 24.75 percent.

Profit distributions made by Spanish permanent establishments to foreign Head Offices, dividends, interest, and similar income, and capital gains obtained on transfers of net worth remain subject to a 21-percent tax rate.

Wealth Tax

After being effectively abolished up to 2010, the Spanish government reintroduced the wealth tax a couple of years ago, with effect for 2011 and 2012, and, in principle, for later years. Then another regulation extended its application to 2013.

Now, Law 22/2013 extends the wealth tax for 2014; however, the government has indicated that it will propose abolishing the wealth tax for 2015.

Withholding Tax Rates for Directors/Administrators

The 42-percent withholding tax rate applicable to amounts paid to directors and administrators has been extended for 2014. The term "administrator" can mean members of the board of directors, directors of companies, and similar positions.

Expenses and Investments for Training Employees in Use of New Technologies

Also extended for 2014 is the preferential tax treatment for any expenses and investments undertaken by the company for the purposes of training employees in the use of new communications and information technologies. Such amounts will continue to be treated as "compensation not subject to Personal Income Tax."

KPMG Note: In the Pipeline

The Treasury minister, Cristobal Montoro, indicated in an interview in October 2013 in El Pais[3] newspaper that the personal income tax regime will undergo major reform in 2015, as the center-right government aims to cut taxes and pass other reforms.

Footnotes:

1 See *Ley 22/2013, de 23 de diciembre, de Presupuestos Generales del Estado para el año 2014* (Spanish) in *Boletín Oficial del Estado*, núm. 309 de 26 de diciembre de 2013, at: https://www.boe.es/boe/dias/2013/12/26/pdfs/BOE-A-2013-13616.pdf.

2 These had been approved in principle for 2012 and 2013, under Royal Decree Law 20/2011 of 30 December 2011, on urgent budget, tax, and financial measures to correct the public deficit (see *Real Decreto-ley 20/2011, de 30 de diciembre, de medidas urgentes en materia presupuestaria, tributaria y financiera para la corrección del déficit público*, published in *Boletín Oficial del Estado*, núm. 315 de 31 de diciembre de 2011).

3 See: http://economia.elpais.com/economia/2013/10/26/actualidad/1382816356_802801.html .

Consider Watching This! Video on the New Individual Taxpayer Identification Number (ITIN) Program Requirements: One Year In

The U.S. Internal Revenue Service (IRS) announced some significant changes in the ITIN application procedures in November 2012. The IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number for tax return or treaty claim purposes, but who do not have, and are not eligible to obtain, a Social Security Number from the Social Security Administration.

One year later, many people have experienced how arduous the process for obtaining an ITIN can be – especially for those from countries that do not certify documents or that need to get ITINs for their dependent children. We have also learnt that the ITIN Unit will accept documents that were certified up to a year prior to processing the ITIN application and there are still some outstanding issues around the five-year life of the ITIN.

KPMG's International Executive Services practice invites you to watch this short video that discusses the significant changes in the ITIN application procedures announced by the Internal Revenue Service in November 2012 (which are effective on or after January 1, 2013), and what lessons have been learnt in the year since the changes were introduced.

www.kpmginstitutes.com/taxwatch/insights/2013/new-itin-requirements.aspx

The information contained in this newsletter was submitted by the KPMG International member firm in Spain. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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