KPMG

GMS Flash Alert

2020-453 | November 6, 2020

Spain - Tax Measures Affecting Individuals Included in 2021 Budget Bill

On 27 October, the Spanish government approved the Bill of the General Budget Law for 2021.[1] Among the several tax measures included in the 2021 Budget Law, there are increases in the Personal Income Tax rates that directly affect individuals and therefore, international assignees.

WHY THIS MATTERS

The increases in Spain's marginal tax rates applicable to the general scale of rates (levied on employment income), and in the marginal rate applicable to investment income, amount to a tax cost increase for employees seconded to Spain, and for the companies with tax-equalised individuals.

In addition, under the new legislation, individuals taxed under the special tax regime for inbound assignees to Spain who have annual employment income exceeding EUR 600,000 will be subject to a tax increase.

Companies with individuals seconded to Spain will need to take into account the tax rate increases in their assignment budgets and also should communicate accordingly with potentially affected individuals.

Details

As of 1 January 2021, the marginal tax rate of the state's scale of rates for the general taxable base (which includes employment income) under the Personal Income Tax Law would increase by 2-percentage points for taxable income exceeding EUR 300,000, while the marginal rate on investment income would be increased by 3 points for taxable income exceeding EUR 200,000.

The general tax rate for individuals taxed under the special regime for inbound assignees to Spain is increased from 45 percent to 47 percent for income exceeding EUR 600,000 (the tax rate for taxable income under EUR 600,000 remains fixed at 24 percent).

Withholding rates on employment income would be modified accordingly as of 1 January 2021, to reflect the above-mentioned increases, with a new marginal withholding rate of 47 percent for employment income exceeding EUR 300,000 (former marginal rate of 45 percent on income over EUR 60,000), and the 47-percent rate also applying to income exceeding EUR 600,000 for individuals taxed under the special regime for inbound assignees.

Another important measure decreases the financial limit of the general maximum annual amount of contributions to pension plans from EUR 8,000 to EUR 2,000. However, the limit will be increased by EUR 8,000, provided that such increase derives from contributions made by the employer to company pension plans. Please note that the amount of the contributions made to qualified pension plans give rise to a reduction from the taxable base of the taxpayer up to the lower of: i) 30 percent of the net employment and business activities income, or ii) the above-mentioned financial limits.

While Net Wealth Tax was categorised as a transitory tax in 2011, it is now set to be considered as a permanent tax, which will prevent the necessity of it having to be "prorogued" each year. As a related issue, the marginal tax rate of the state scale of rates is increased from 2.5 percent to 3.5 percent for taxable income exceeding EUR 10.6 million. Note that each autonomous community has the ability to establish its own scale of rates and exempt limits/allowances for net wealth purposes (for example, a 100 percent allowance on the tax due currently applies in the autonomous community of Madrid).

FOOTNOTE:

1 For the General Budget Law Bill for 2021, *121/000035 Proyecto de Ley de Presupuestos Generales del Estado para el año 2021,* published in the Official Gazette of the Parliament on 30 October (in Spanish), see http://www.congreso.es/public_oficiales/L14/CONG/BOCG/A/BOCG-14-A-35-1.PDF

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Spain:

Miguel Arias
Partner
Tel. + 34 91 456 3864
marias@kpmg.es

Sergio González-Anta
Partner
Tel. + 34 93 254 2764
sgonzalezanta@kpmg.es

Igor Diego Angulo
Director
Tel. + 34 91 456 5921
idiego@kpmg.es

The information contained in this newsletter was submitted by the KPMG International member firm in Spain.

www.kpmg.com

kpmg.com/socialmedia

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to http://www.kpmg.com.