

GMS Flash Alert



2021-014 | January 12, 2021

Spain – General Budget Law for 2021 Approved, Measures Affecting Individuals

The Spanish General Budget Law for 2021 was approved and published in the country's official gazette (*Boletín Oficial del Estado*) on 31 December 2020.¹

All measures contained in the Budget Bill for 2021 affecting the taxation of individuals – which we reported on in [GMS Flash Alert 2020-453](#), 6 November 2020 – were implemented starting 1 January 2021. Measures included changes to the marginal rate of personal income tax, the special tax regime for inbound assignees, and the wealth tax, among others.

WHY THIS MATTERS

The increase in Spain's marginal personal income tax rate and also in the marginal rate applicable to investment income may result in a tax cost increase for employees seconded to Spain, and for the companies that send them on assignment to Spain with respect to assignees who are tax equalised.

As a related issue, the tax rate applicable to individuals who are taxed under the special tax regime and with annual employment income exceeding EUR 600,000 will also be increased.

Companies with individuals seconded to Spain will need to take into account the above-mentioned tax rate increases in their international assignment budgeting and also should consider communicating accordingly with affected individuals.

Personal Income Tax Measures

Marginal Income Tax Rate

As of 1 January 2021, the marginal tax rate applied to the state's scale of rates on the general taxable base (which includes among other employment income) is increased by two points (2 percent) for taxable income exceeding EUR 300,000, while the marginal rate on investment income is increased by 3 points (3 percent) for taxable income exceeding EUR 200,000.

Special Regime for Inbound Assignees

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 Rate on Employment Income

The withholding scale of rates on employment income is modified 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 47 percent for income exceeding EUR 600,000 for individuals taxed under the special regime for inbound assignees.

Pension Plan Contributions

Another important measure has to do with the decrease from EUR 8,000 to EUR 2,000 of the financial limitation on the general maximum annual amount of contributions allowable to **pension plans**. However, this limit is increased in an amount of EUR 8,000, provided that such increase derives from contributions made by the employer to a company pension plan. Please note that the amount of the contributions made to qualified pension plans gives rise to a reduction from the taxpayer's taxable base up to the lower of: i) 30 percent of the net employment and business activities income, or ii) the above-mentioned financial limits.

The amount of contributions to a spouse's pension plan that could be made and give rise to a reduction is also reduced from EUR 2,500 annually to EUR 1,000.

New Wealth Tax

While **Net Wealth Tax** was categorised as a temporary tax in 2011, it is now set to be considered as a permanent tax, which will preclude 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 however 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 original of the General Budget Law for 2021, in Spanish, please visit <https://www.boe.es/boe/dias/2020/12/31/pdfs/BOE-A-2020-17339.pdf>.

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