

Spain

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1. Types of tax

1.1 Inheritance and gift tax

According to the Spanish Inheritance and Gift Tax (IGT) Law, this tax is levied on the acquisition by individuals of assets (whether tangible or intangible) by virtue of inheritance (*mortis causa*), donation (*inter vivos*) or life insurance policies where the payer of the premium and the beneficiary are different persons (subject to certain exceptions).

IGT is a national tax; however, the power to legislate some aspects that have a direct impact on the quota to be paid has been transferred to the regional governments. Indeed, many regions have approved lower tax rates, reductions and other benefits that significantly reduce the tax burden. As a consequence of this, effective inheritance taxation is much higher under national law than under regional regimes.

Additionally, the regions of Navarre and Basque Country have a wide right to self-regulate IGT. Taxation in these regions is significantly different from the mainstream Spanish tax laws.

Historically, regional law was not applicable when nonresidents were involved (when the deceased, heir or donee was a nonresident or when the real estate was located outside of Spain). If so, national law applied in any case, with nonresident individuals being generally subject to a much higher tax burden only because of their nonresident status. However, the Court of Justice of the European Union (CJEU) ruled against Spanish IGT in a 12 September 2014 judgment, concluding that the Spanish IGT rules breached the EU Treaty principle of free movement of persons since only Spanish residents were permitted to apply regional tax benefits. As a result of this judgment, Spain has amended its IGT Law and now EU residents are entitled to apply regional rules.

Moreover, it should be noted that there is an opportunity to recover taxes unduly paid under the former and discriminatory IGT Law.



1.2 Real estate transfer tax

The transfer of real estate by inheritance or gift is exempt from Spanish real estate transfer tax.

1.3 Endowment tax

No endowment taxes are levied in Spain. Nevertheless, as a general rule, donations made to charitable foundations (meeting certain requirements and pursuing special charitable purposes) would allow the donors to claim a tax credit for income tax purposes, as follows:

- ▶ If the donor is a corporation, then a corporate income tax relief ranging from 35% to 40% on the amount donated could be applied if certain requirements are met. Nevertheless, the tax base of the deduction cannot exceed 10% of the period's total taxable base. Non-deducted amounts due to an insufficient tax quota can be applied during the next 10 years.
- ▶ If the donor is an individual, then a personal income tax relief ranging from 30% to 70% on the amount donated is available, with the tax base of the deduction also subject to the limit of 10% of the period's total taxable base.

1.4 Transfer duty

Spain levies a stamp duty tax upon signature of a public deed, notarial documents, and documents to be registered officially, with rates ranging from 0.1% to 1.8%.

However, successions and gifts are exempt from Spanish transfer duty.

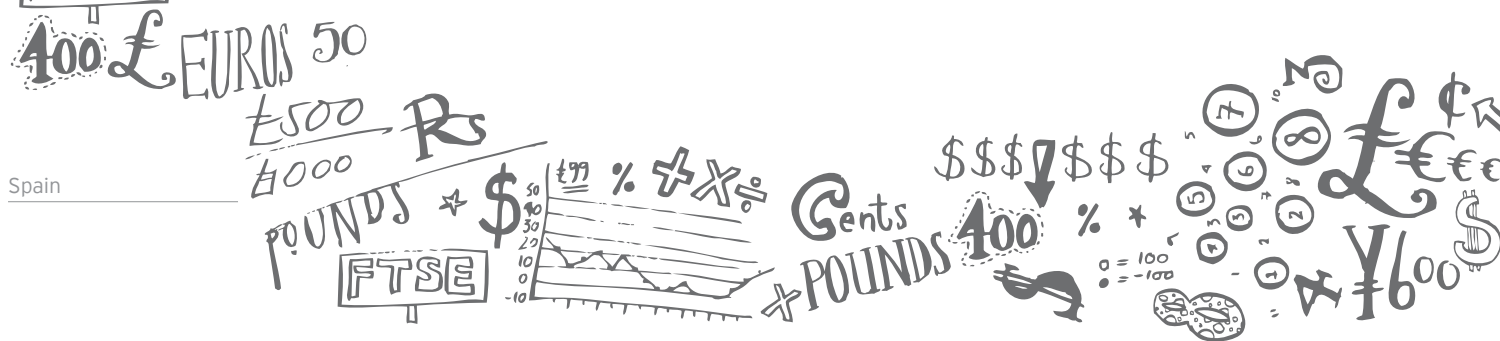
1.5 Net wealth tax

Net wealth tax (NWT) is an annual tax levied on the net worth of individuals as at 31 December of each year. Wealth subject to this tax is defined as all the assets and rights that can be economically valued, less all the burdens, encumbrances or debts that the individual may have and that effectively reduce the wealth.

If the individual is resident in Spain, NWT is levied on a worldwide basis, whereas nonresident individuals are only subject to NWT on their Spanish-located assets.

Spanish NWT was abolished in Spain but the Government decided to reinstate the tax initially for years 2011 and 2012, and then extended it to 2013, 2014, 2015 and 2016. It is likely that NWT will also be extended in future years.

Spanish autonomous regions are authorized to set their own tax rates and allowances within certain limits, leading to different wealth tax liabilities. For instance, NWT is not due in Madrid since the region offers a 100% relief.





2.4 Spanish territoriality rules applicable to IGT

As a result of the 2 September 2014 judgment of the CJEU, Spanish IGT rules were amended and new connection points were introduced to enable EU nonresident taxpayers to apply regional rules, as follows:

Inheritance tax

In the case of inheritance, bequest or other type of successions, if the deceased had been a resident in a Member State of the EU or European Economic Area (EEA) other than Spain, Spanish tax residents will be allowed to apply the rules approved by the region where the highest value of the assets (and rights) forming part of the estate were located.

In those cases where the deceased was resident in a Spanish region, non-Spanish tax residents who reside in another Member State of the EU or EEA will be allowed to apply the rules of the region in which the deceased was resident.

Regarding the amounts received by the beneficiaries derived from life insurance contracts, when such amounts should not be added to the taxable base for inheritance tax purposes, non-Spanish tax residents who reside in a Member State of the EU or EEA will be allowed to apply the rules approved by (i) the region where the registered office of the Spanish life insurance company was situated, or (ii) the region in which the foreign life insurance company had concluded the relevant contract.

Gift tax

In the case of acquisition of movable property situated in Spain by gift or any other *inter vivos* gratuitous transfer, non-Spanish tax residents who reside in another Member State of the EU or EEA will be allowed to apply the rules approved by the region where the referred movable assets had been situated for a greater number of days during the five-year period prior to the taxable event.

In the case of acquisition of real estate property located in Spain, non-Spanish tax residents who reside in another Member State of the EU or EEA will be allowed to apply the rules approved by the region where the real estate property was situated.

In cases where real estate is located outside Spain but in a Member State of the EU or EEA, Spanish tax residents will be allowed to apply the rules approved by the region in which they reside. For this purpose, a Spanish tax resident will be considered a resident of any region provided that such individual had been a resident in that particular region for a greater number of days during the five-year period prior to the taxable event.

3. Rates

3.1 Inheritance and gift tax

The taxable base is taxed (both for gift and inheritance tax purposes) by application of the following progressive scale:

Up to	EUR	Remaining	%
€0.00	€0.00	€7,993.46	7.65
€7,993.46	€611.50	€7,987.45	8.50
€15,980.91	€1,290.43	€7,987.45	9.35
€23,968.36	€2,037.26	€7,987.45	10.20
€31,955.81	€2,851.98	€7,987.45	11.05
€39,943.26	€3,734.59	€7,987.46	11.90



The resulting gross tax should be further increased by application of certain additional coefficients, which take into account the acquirer's net wealth prior to the acquisition,¹ as well as his or her relationship with the donor/deceased (as per the groups described in Section 4.1.).

Therefore, the effective maximum rate may reach 81.60% (i.e., maximum general rate: 34% x maximum personal rate: 2.4 = 81.60%).

Other key aspects

- ¹ The net wealth prior to the acquisition is calculated according to Spanish net wealth tax provisions.



- ▶ Foreign tax relief is available in order to avoid double taxation.
- ▶ With certain exceptions, gifts trigger capital gains in the hands of the donor for personal income tax purposes, computed as the difference between the acquisition cost and the market value of the assets donated.
- ▶ No income or capital gains are deemed to arise in the hands of the deceased for personal income tax purposes on the difference between the acquisition cost and the market value of the assets comprised in the estate.
- ▶ Some of the main characteristics of regional IGT rules are as follows:
 1. Balearic Islands, Asturias, Galicia and Murcia have almost eliminated taxation in cases of inheritance by Group I acquirers (descendants under 21 years of age).
 2. La Rioja, Castilla La Mancha and Madrid have almost eliminated taxation in cases of inheritance by Group I and II acquirers (ascendants, descendants and spouse).
 3. Catalonia only maintains the 99% tax relief in the case of inheritance by the spouse. For all other heirs, the relief is reduced progressively as the taxable base increases.
 4. Castilla La Mancha and Madrid have almost eliminated taxation in cases of donation to Group I and II acquirers (subject to formal requirements).
 5. In 2013, Valencia reduced the applicable discount from 99% to 75% in cases of inheritance and donation regarding Group I and II acquirers.
 6. Aragon offers an exemption up to €3 million in cases of heirs under legal age (18 years).

As explained above, these regional rules apply only when certain conditions related to the residence of the deceased, heir or donee are met.

With regard to Basque Country and Navarre, transfers between families are generally advantageous due to reduced rates.

3.2 Net wealth tax

Net wealth tax rates under national law are as follows (note that some regions have higher rates up to 3.03%):

Up to	EUR	Remaining	%
€0.00	€0.00	€167,129.45	0.2
€167,129.45	€334.26	€167,123.43	0.3
€334,252.88	€835.63	€334,246.87	0.5
€668,499.75	€2,506.86	€668,499.76	0.9
€1,336,999.51	€8,523.36	€1,336,999.50	1.3
€2,673,999.01	€25,904.35	€2,673,999.02	1.7
€5,347,998.03	€71,362.33	€5,347,998.03	2.1
€10,695,996.06	€183,670.29	excess	2.5



4. Exemptions and reliefs

4.1 Inheritance and gift tax

The taxable value of the acquisition by the taxpayer is determined by taking into account the fair market value (FMV) of the assets forming part of the estate or donation, or the benefit from the life insurance policy.

Encumbrances and liens attached to the assets of the estate or donation, along with the liabilities transferred by the deceased or donor and certain debts and expenses related to the deceased, may be deducted.

The resulting amount is further reduced, regardless of the residence status of the acquirer, by application of certain allowances in cases of inheritance or life insurance benefits, as follows:

- ▶ Reductions on inheritance, depending on the family relationship between the heir and the deceased, as follows:
 - ▶ Group I: descendants under 21: €15,956, plus €3,990 for each year the descendant is under 21 years. Total reduction may not exceed €47,858.
 - ▶ Group II: descendants older than 21, spouse and ascendants: €15,956.
 - ▶ Group III: ascendants and descendants by affinity. Second- and third-degree collaterals (brothers and sisters, uncles and aunts, nieces and nephews): €7,993.
 - ▶ Group IV: others: there is no reduction
- ▶ Disabled acquirers: €47,858 or €150,253. Disability is determined according to Spanish social security regulations.
- ▶ Acquisition of the principal private residence by close relatives: 95% of the real estate value, up to an amount of €122,606.
- ▶ Benefits deriving from life insurance policies may be reduced by 100% up to a maximum amount of €9,195 where the beneficiary is the spouse, ascendant or descendant of the payer of the premiums.²
- ▶ Acquisition of qualified shareholdings in family-owned operating companies by certain relatives (including the spouse of the deceased or donor). This reduction is applicable, up to 95% of the shares' value, provided that a number of requirements are met, including that the conditions required for wealth tax exemption are met as of the date of death. This reduction also applies to donations, subject to the fulfilment of additional requirements.

In case of gifts, the exemptions are generally reduced to the acquisition of qualified shareholdings in family-owned operating companies by certain relatives and to the acquisition of Historical Heritage assets, giving more legislative power to the autonomous regions.

4.2 Net wealth tax

There is a general threshold of €700,000 (lower in some regions) available for each taxpayer, either resident or not resident in Spain. As a result, taxpayers with taxable assets below €700,000 will not be subject to NWT. Nevertheless, NWT rules provide that individuals whose assets and right's value are above €2 million are obliged to file the NWT return even though the resulting tax liability is zero.

² There are a number of transitional measures applicable to life insurance policies contracted before 19 January 1987.



In addition, the law exempts from NWT certain assets and rights, amongst others:

- ▶ Habitual dwelling: each taxpayer has an exemption on the first €300,000 of the value of property (lower in some regions).
- ▶ Family business relief: there is a total exemption for family businesses under certain requirements, and as a result owners of qualifying family businesses might not be taxed under wealth tax on their shares.
- ▶ Business assets and property needed for the exercise of a profession or an activity, under certain requirements.
- ▶ Works of art: provided that certain requirements are met and the National Heritage regulations are complied with.
- ▶ Household items (with some exceptions, such as jewelry or certain type of leather).
- ▶ The amounts saved through a retirement or pension plan.

5. Filing procedures

5.1 Inheritance and gift tax

Generally, IGT returns must be filed by the legal deadlines as follows:

- ▶ In cases of inheritance or life insurance policies: six months from the date of death
- ▶ Donations: 30 days from the date of the gift

However, some of the regions have established a self-assessment procedure. Where this procedure is applicable, tax must be paid upon filing.

Filing forms for this tax are as follows: Form 650 for inheritance and Form 651 for donations. Additionally, Form 652 is used for certain simplified inheritances. These forms are used for both resident and nonresident taxpayers.

Autonomous regions have their own tax forms for gift and inheritance tax purposes. These must be used whenever the region is entitled to collect the tax.

5.2 Net wealth tax

NWT taxpayers must file an annual tax return (Form 714) no later than 30 June 2016 in connection with the period of the previous calendar year, along with the payment of the amount of tax due.

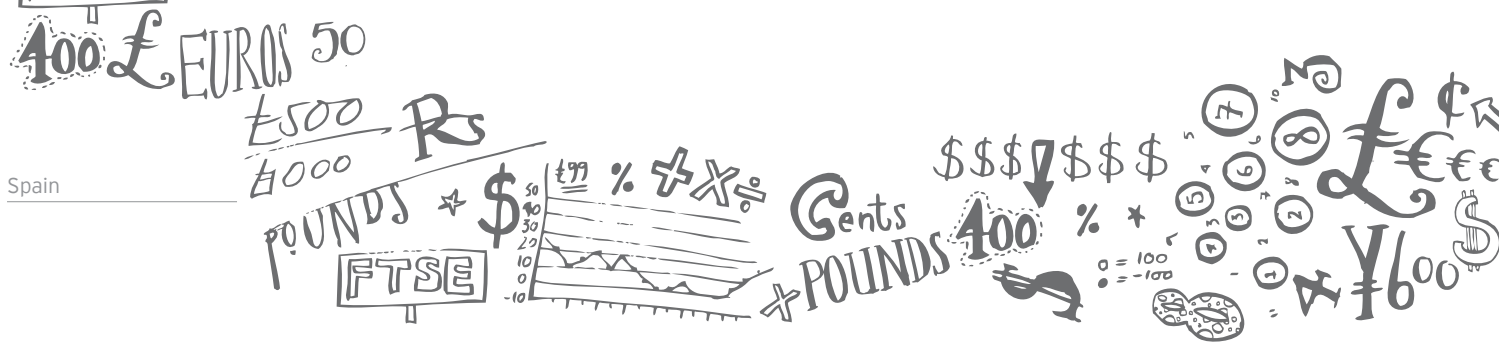
6. Assessments and valuations

6.1 Inheritance and gift tax

The tax assessment basis for the Spanish inheritance and gift tax is the FMV of the inherited or donated assets.

6.2 Net Wealth tax

The valuation of assets and rights must be performed according to specific rules. For instance, a property is valued at the highest of: (i) the acquisition value, (ii) the cadastral value and (iii) the inherited value.





Although this is still a debatable issue, the mainstream position of the Spanish courts may be summarized as follows:

- ▶ The Spanish Civil Code only accepts remissions made by foreign law where the foreign conflict rule remits back to the Spanish law. Spanish courts will never accept remissions to third countries' laws.
- ▶ The Spanish Supreme Court has issued several case law decisions regarding remissions to Spanish law in cases of inheritance of Spanish-located properties where the deceased was a non-Spanish citizen. In general, remission to Spanish succession law is acceptable provided that the whole succession is governed by the law of only one country (Spain). Consequently, generally speaking the Spanish courts would not accept that the succession by reason of death is governed both by the Spanish law with regard to certain items of the estate (Spanish properties, for instance) and foreign laws with regard to the remaining assets.

10.2 Succession

The rights to the estate of a person are transmitted from the time of his or her death. The inheritance includes all assets, rights and obligations of a person, not extinguished by his or her death. Succession defers to the will of an individual expressed in a will and, failing that, by law. The first is called probate, and the second legitimate. It may also be conferred in part by the will of an individual, and another by law.

10.3 Forced heirship

According to the Spanish Civil Code, forced heirship rules are as follows:

- ▶ Children and other descendants are entitled to two-thirds of the estate. One-third must be split equally among all children and the other one-third may be freely given to any of the descendants (children or grandchildren). When a child has died, leaving his or her own descendants, the portion of the estate attributable to the deceased children passes on to his or her descendants.
- ▶ If there are no descendants, ascendants are entitled to one-half of the estate, provided that there is no surviving spouse. If there is a surviving spouse, the ascendants' compulsory share is one-third of the estate.
- ▶ The surviving spouse's rights over the estate are as follows:
 - ▶ If there are descendants, the surviving spouse has a right of usufruct over one-third of the estate.
 - ▶ If there are no descendants, but there are ascendants, the surviving spouse has a right of usufruct over one-half of the estate.
 - ▶ If there are neither descendants nor ascendants, the surviving spouse has a right of usufruct over two-thirds of the estate.
- ▶ Special rules apply in the case of separated couples.

The balance may be freely disposed of by will.

10.4 Matrimonial regimes and civil partnerships

Marriage

According to the Spanish Civil Code, a marriage is ruled by the following principles:

- ▶ The common national law of the spouses
- ▶ If there is no common citizenship, by the law of the citizenship or residence of either of the spouses, stated in a public deed before the marriage
- ▶ Failing this, by the law of the first common domicile after the marriage
- ▶ Finally, failing this, by the law of the place of celebration of the marriage



Additionally, before 1991, other conflict laws were in force (generally the husband's national law ruled the marriage), which has caused complex case law.

According to the Spanish Civil Code, the spouses can freely choose the economic regime of the marriage before the marriage, or change it during the marriage.

If they do not make an express selection, a joint ownership (*sociedad de gananciales*) will apply.³ Under this regime, income or gains obtained by any of the spouses during the marriage is made common to both of them.

Both spouses manage common goods jointly. Any asset acquired by any of the spouses under the community regime is deemed to be common to both, unless it is duly proved that it has been acquired using money or goods that only belong to one of the spouses. Each of the spouses will, however, keep sole property, *inter alia*, over the following assets (*bienes privativos*):

- ▶ Assets held before the marriage is celebrated or the community regime is established
- ▶ Assets received by inheritance or donation
- ▶ Assets received in exchange of other *bienes privativos*

Nevertheless, the gain derived from the sale of an individual right is common to both spouses. Additionally, special rules apply to the main family home.

A separate property regime (*separación de bienes*) is selected by a growing number of couples, especially by high-net-worth individuals (HNWIs). In addition, this regime is applicable by default in Catalonia and the Balearic Islands. If this regime is applicable, each spouse has his or her own separate possessions, which are managed individually.

10.5 Intestacy

Testamentary documents and intestacy

A will is a legal document that regulates an individual's estate after death. Spain is a member of The Hague Treaty of 5 October 1961 regarding will formalities, and consequently, will accept the formal validity of a will drawn under:

- ▶ The laws of the deceased's domicile, nationality, place of residence at the time of execution of the will or at death
- ▶ The laws of the place where the will has been executed
- ▶ The laws where real estate is located, but only regarding real estate

If there is no valid will at death, then the deceased's estate passes under predetermined rules known as intestate succession, in the following order:

- ▶ Children and other descendants (observing forced heirship rules applicable to the surviving spouse)
- ▶ Ascendants (observing forced heirship rules applicable to the surviving spouse)
- ▶ The surviving spouse (special rules apply in the case of separated couples)
- ▶ Other relatives, up to the fourth degree (uncles, aunts, nephews, nieces and cousins)
- ▶ The Spanish state

³ i.e., spouses who marry without a marriage contract have a joint estate by law.



The act by which a person disposes of assets or part thereof after their death is called a will. The testator may dispose of his or her property by inheritance or legacy. A will is a personal act: its formation cannot be left, in whole or part, at the discretion of a third party or made by commissioner or agent.

An individual having forced heirs may only dispose of property in the manner and within the limitations set out in forced heirship rules stated before.

11.1 Unilateral rules

11.2 Double-taxation treaties

On the other hand, regarding net wealth tax, Spain has a large network of international treaties to avoid double taxation on income. Most of these treaties include net wealth tax provisions.