

UNIT 4

ECONOMIC-ADMINISTRATIVE FUNCTION IN A COMPANY

PART III. TAX OBLIGATIONS OF THE COMPANIES

1. TAXES

From an economic point of view, taxes are contributions that citizens must pay to the Public Authorities (Tax Office and others) so that they can redistribute them in an equitable way or according to the needs of each moment. Except for some cases, taxes are paid through monetary benefits.

In Spain, taxes are established by Acts (Leyes) that are approved in the national Parliament or in the regional parliaments. The taxes are collected and managed by the State, the Autonomous Communities and the Local Entities (Provincial Councils and municipalities)

Reasons to pay taxes

- In the first place, to **sustain public expenses**. The main source of public revenues (ingresos) is taxes.
- Second to **redistribute income**. For this, an obligation to pay based on economic capacity must be established. The richest should be those who pay the most proportion of their income in taxes.
- Third, to achieve **greater efficiency in the economy**. For example, taxes can levy (gravar) activities that cause damage to people who do not participate in the decision to carry out that activity.
- Fourth, **smooth out crisis situations** (suavizar situaciones de crisis). Fiscal policy can be an instrument of economic policy.

For a person to be obliged to pay a tax, the so-called **taxable event** (hecho imponible) must be carried out. It is a fact that, once carried out, generates the birth of the obligation to pay the tax.

Taxable events can be of various types. For example, in Personal Income Tax (Impuesto sobre la Renta) it is the obtaining of income by the taxpayer (contribuyente), arising the obligation to pay the tax.

Types of taxes

Taxes (Tributos) can be grouped into three categories: fees (tasas), contributions, and taxes.

FEES (or Taxes, tasas)

Fees are economic contributions made by users of a service provided by the Public Authorities at their different levels: state, regional or local. The fees are paid in exchange for something. For example, they are paid in exchange for some service or some use of the public domain.

Some types of fees would be, for example, the water supply, a permanent vehicles entrance (vado), or court fees (costas procesales). It should be noted at this point that the fee is not a tax, but a type of tax (tributo). The fees are paid for the use of a service, therefore, if the service is not used, there is no obligation to pay.

SPECIAL CONTRIBUTIONS

They are another type of tax whose taxable event consists of obtaining by the taxpayer a benefit as a result of the increase in value of their assets (bienes), due to the fact that a public work is carried out or a public service is expanded. The reason for paying them is that the owner of an asset receives a benefit. An example of this could be a underground stop that revalues a piece of land, the paving of a street or the construction of a square. Likewise, the income collected must be used to defray (sufragar) the expenses of the work or service done.

TAXES

They are a type of tax in which the citizen, when he pays it, does not receive anything concrete in return. Taxes contribute to the general support of public expenditures, receiving those who pay them a benefit in a generalized way like the rest of citizens.

Taxes can be classified into:

1.- **Direct** (such as personal income tax) and **indirect** (such as VAT). The difference between direct and indirect taxes is the basis on which they are applied. While direct taxes tax people's wealth, indirect taxes levy how this wealth is used.

2.- **Personal** (because the taxpayer pays for his overall capacity, such as personal income tax) and **real** (the taxpayer pays for a fact that shows his capacity, for example, for having a property).

3.- **Objective** (they do not take into account the taxpayer's capacity, such as VAT) and **subjective** (they do take it into account, such as personal income tax).

4.- **Periodic** (they are paid more than once, yearly, such as personal income tax) and **instantaneous** (they are paid once for certain events, for example the ITP for the purchase of a house).

5.- A **proportional** tax is a type of tax whose tax rate (tipo impositivo) or percentage is always the same, it does not vary depending on whether the tax base (base imponible) to be taxed increases or decreases. For example, the Corporation Tax.

A **progressive** tax is one that increases as income increases. The citizen who receives more income must pay higher taxes. For example, Personal Income Tax is considered a progressive tax because people with higher income must pay more.

We are going to study below the main taxes that companies pay.

2. PERSONAL INCOME TAX (Impuesto sobre la Renta de las Personas Físicas)

What is personal income tax and what is taxed?

Personal Income Tax (PIT) is a personal tax that is levied on the revenues that the person obtains throughout a financial year (normally, one year)

This revenues have several components:

- Earnings from work, which are basically wages, but also other income, such as from pensions.
- Returns on movable capital (savings, stock dividend, account interest, etc.) and on real estate capital (real estate leasing).
- Income from economic activities (sole proprietor, professionals, etc.).
- The profits (less losses) that are produced in personal assets. For example, by sell goods., etc.

What are their characteristics?

Personal income tax is a tax:

- Personal: it refers to the person and does not fall on the goods.
- Direct: tax directly to the person.
- Subjective: it does not tax all people in the same way, but each case is taken as particular.
- Progressive: the higher the income level, the higher the retention percentage is applied according to a scale.
- Periodic: it is applied every year.
- Analytical: the origin of each one of the revenues is analyzed, each one having special characteristics.

Who pays the personal income tax?

It is paid by natural persons (human beings) resident in Spain. A resident in Spain is considered to be someone who lives most of the time in Spain, regardless of their origin or nationality. Thus, people of Spanish nationality residing abroad (with exceptions such as diplomats) do not have to pay it. And foreigners residing in Spain have to pay PIT, even if they do not have Spanish nationality.

In the case of companies, it is paid by the Sole Proprietor (Empresario Individual) or each partner in a Joint Ownership (Comunidad de Bienes).

How much do you pay?

Being a progressive tax, the more you earn, the more you pay

Tax Basis	Withholding
Base imponible	Tipo a aplicar
Desde 0 € hasta 12.450 €	19%
Desde 12.450 € hasta 20.200 €	24%
Desde 20.200 € hasta 35.200 €	30%
Desde 35.200 € hasta 60.000 €	37%
Desde 60.000 € hasta 300.000 €	45%
Más de 300.000 €	47%

Personal income tax regimes

The personal income tax regimes are the different possibilities that the Public Authorities offer to calculate the net profit of the annual turnover. Companies rely on one system or another according to their interests.

- **NORMAL DIRECT ESTIMATION (ESTIMACIÓN DIRECTA NORMAL)**: it is the most complicated and difficult regimen to carry. It applies to self-employed persons not covered by the simplified modality or the objective estimation regime. The turnover of all activities must exceed € 600,000 per year in the previous year. It applies if the simplified direct estimation is waived (renunciado).

- **SIMPLIFIED DIRECT ESTIMATION (ESTIMACIÓN DIRECTTA SIMPLIFICADA)**: it is a relatively simple regime to carry out and is applied to the self-employed when their activities are not covered by the objective estimation regime. In the previous year, the net amount of the turnover for all the activities carried out did not exceed € 600,000. You must not have given up on this regimen. None of your activities should be in the normal direct estimation regime.

- **OBJECTIVE ESTIMATION**: It hardly requires formal requirements, making it a simpler regime to manage. To calculate its amount, the regulations establish, depending on the activity, some modules according to the number of workers, the square meters of the premises, etc., and set a value for each module. Then the number of units of each module is multiplied by its value.

How do you pay?

To understand how personal income tax is paid, two aspects must be analyzed: income tax withholding (retención) and personal income tax regimes (which has been analysed previously).

INCOME TAX WITHHOLDING (RETENCIÓN)

Personal Income Tax is an annual tax, that is, it is paid once a year for the income obtained in the previous year. However, the Treasury (Hacienda) requires that, every three months, the sole proprietor makes a payment on account of personal income tax (pago a cuenta del Impuesto sobre la Renta), that is, advance a part of the payment. This is what is called withholding.

During this year the percentage of personal income tax for a self-employed person is 15% (as a general rule, then there are exceptions). Therefore, the amount proportional to 15% of everything that has been invoiced in a quarter is paid to the Tax Office.

If you are a new self-employed and no professional activity has been carried out in the past year, 7% is applied during the first three years.

When is it paid?

The tax settlement (liquidación de impuesto) is carried out between May 1 and June 30 of the following year. As a self-employed person, you must file (presentar) quarterly returns (declaraciones trimestrales) (withholdings) electronically, that is, over the Internet, using the so-called 24-hour PIN.

3. CORPORATE TAX (IMPUESTO DE SOCIEDADES)

What is the Corporate tax and what is levied?

It is a tax that is applied on the net profit that companies obtain from their activity. Revenues obtained by the company during the year (which may or may not coincide with the calendar year) is taxed.

What are the main characteristics of Corporate Tax?

- Direct.
- Personal.
- Periodic.

Who pays the Corporate Tax?

The taxpayers for this tax are (with some exceptions) the subject with legal personality (corporations, limited companies, etc.).

Taxpayers are entities with tax residence in Spain. For tax purposes, an entity is resident if it has been incorporated in accordance with Spanish law, it has its registered office (domicilio social) in Spain and it has its effective management in Spain.

How much do you pay for the Corporate Tax?

At present, a general tax rate (tipo impositivo) of 25% is applied to the tax base or basis (base imponible). On the other hand, a rate of 15% is applied in the case of newly created companies in the first year that they make a profit and the next. There are other percentages for special cases

When is it paid?

Corporate Tax must be settled (liquidado) every 12 months; the vast majority of companies make it coincide with the calendar year.

As personal income tax, companies are required to make quarterly payments on account (hacer pagos trimestrales a cuenta)

How do you pay Corporate Tax?

** Step 1

Result of the profit/loss

+

Negative results from previous exercises

= Tax base

** Step 2

Tax base x Tax rate = Full fee (cuota íntegra)

** Step 3

Full fee

-

Deductions (bonuses, withholdings, installment payments (pagos fraccionados), etc.)

= Differential fee (cuota diferencial) to deposit or return

4. ECONOMIC ACTIVITIES TAX (IMPUESTO DE ACTIVIDADES ECONÓMICAS)

Any person, natural or legal, who develops a professional, business or artistic activity in Spain has the obligation to register (darse de alta) with the Economic Activities Tax (IAE). This is a tax whose tax period is the calendar year.

However, natural persons are exempt from paying this tax in any case and only entities that obtain a net annual turnover equal to or greater than 1,000,000 euros will

have to face it financially. And even in the latter case there is a payment exemption during the first two years of activity.

In case of having to pay, it must be taken into account that its collection (recaudación) corresponds to the Local Treasuries (Entidades Locales), so it will be the City Council that sets the deadlines (plazos) for the voluntary payment period.

5. VALUE ADDED TAX (VAT) (IMPUETO SOBRE EL VALOR AÑADIDO).

VAT is an indirect tax levied on the consumption capacity of individuals based on the product or service sold, which is not the same in all. Therefore, there are several types of VAT:

- **Super-reduced VAT of 4%:** applies to basic needs such as basic food (milk, bread, eggs, fruits, vegetables, etc.), paper publications (books, newspapers, magazines), medicines, prosthetics, internal implants and vehicles for people with disabilities.
- **Reduced VAT of 10%:** applies to food and goods for agricultural, forestry or livestock (ganadero) use, veterinary drugs, water, purchase of housing and garages, housing reforms, passenger transport, sports services, social assistance, fairs and congresses .
- **General VAT of 21%:** applied to all other goods and services that are not included in the two previous categories.

The peculiarity of VAT is that companies are not subject to the payment of this tax (since the taxable person is the final consumer), but companies are responsible for charging (aplicar) the tax to their customers when they invoice (facturar) the operations and then pay it in the Public Treasury (Hacienda).

When a company buys from its suppliers, it must pay the VAT charged by its supplier, this VAT is known as **input VAT (IVA soportado)**

When the company sells its products, it charges its customers the corresponding VAT; This VAT is called **output VAT (IVA repercutido)**

OUTPUT VAT - INPUT VAT =

+ deposit in (ingresar) the Tax Agency

- The Tax Office returns (devuelve)

As PIT and Corporate Tax, there are quarterly payments of VAT.

A number of special regimes have been created to help businesses that have limited administrative resources meet formal VAT requirements: one of them is based on the **equivalence surcharge (recargo de equivalencia)**

What is the Equivalence Surcharge?

The equivalence surcharge is a special VAT regime, mandatory for retail traders (minoristas) who do not carry out any type of transformation in the products they sell, that is, for self-employed traders who sell to the end customer. It applies both to natural persons registered as self-employed and to Joint Ownership (Comunidad de Bienes). For the retailer (minorista), it means paying a VAT somewhat higher than normal in exchange for not having to submit VAT returns (no presentar declaraciones de IVA) to the Treasury.

- 5.2% for articles that have a VAT at the general rate of 21%.
- 1.4% for articles that have a VAT at the reduced rate of 10%.
- 0.5% for items that have a VAT at the reduced rate of 4%.
- 0.75% for tobacco.

6. OTHER TAXES.

Real Estate Tax (IMPUESTO DE BIENES INMUEBLES).

You pay for owning a property. It is a percentage (%) of the cadastral value and is paid annually.

Tax on motor vehicles.

Taxes the vehicles owned by the company. It is collected by the City Council and paid based on the type of vehicle and its power.

Tax on buildings, installations and works.

To obtain the building or urban planning license.

Tax on Patrimonial Transmissions and Documented Legal Acts (ITPyAJD).

Taxes onerous patrimonial transfers, corporate operations and documented legal acts.

Tax on the increase in the value of urban land.

Taxes the increase in the value of urban land. It is municipal

7. TAX CALENDAR

To know the tax calendar of each year:

[Calendario fiscal 2021 para autónomos y pymes \(infoautonomos.com\)](http://infoautonomos.com/Calendario-fiscal-2021-para-autonomos-y-pymes)

[Modelo 202 del Impuesto sobre Sociedades \(infoautonomos.com\)](http://infoautonomos.com/Modelo-202-del-impuesto-sobre-sociedades)