DOING BUSINESS IN SPAIN

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Foreword

This guide has been prepared by MG Abogados and Arraut & Asociados, two independent members of Alliance of Business Lawyers. It has been designed to answer many of the questions foreign businesses and entrepreneurs have when making their first venture into the Spanish market.

MG Abogados is an independent business law firm located in Madrid. Its practice focuses on assisting its clients in regard to Commercial and Corporate, Foreign Investments, Civil, Labor, Economic and Financial law.
Arraut & Asociados, based in Barcelona, offers committed legal advice to those clients involved in international affairs while caring and conciliating legal, language and cultural differences arising as a result of the parties involved.

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1. Spain: Profile and Business Environment

1.1. The Spanish Constitution and Government

- Spain is a parliamentary monarchy under the 1978 Constitution.
- The King is the head of state and monitors the functioning of democratic institutions in accordance with the Constitution.
- The country is governed by a bicameral Parliament known as the Cortes, which comprises a Congress of Deputies (Congreso de los Diputados), elected every four years by universal suffrage; and a Senate (Senado) of directly elected representatives from each Spanish province and region.
- Spain is divided into 17 autonomous regions containing a total of 50 provinces. The autonomous regions or communities share in the centrally collected tax revenues and collect certain taxes that are reserved for the autonomous regions' use.

1.2. Domestic Market Population

- According to the Spanish national census, as of July 2014, the country had 46.5 million inhabitants.
- The population growth rate is 0.654%.
- More than half of the population lives in cities.

1.3. Area

Spain is 506,013 square kilometers in size, including the Balearic and Canary Islands and Ceuta and Melilla in North Africa.

1.4. Population Density

There are 93 inhabitants per square kilometer.

1.5. Currency

The currency of Spain is the Euro (EUR).

1.6. Language

Spanish is the official language of the state. In certain autonomous regions, it is used jointly with other official languages:

- Catalan in Catalonia
- Galician in Galicia
- Basque, in the Basque Country

2. Economy

In 2011, the service sector accounted for 74.1% of the gross domestic product (GDP) while industry accounted for 14.2%, construction for 7.2%, and agriculture for 4.5%. The construction sector and vehicle market are currently suffering a deep crisis, compounded by the global economic turmoil.

2.1. Unemployment

Unemployment is a persistent problem of the economy. Since 1994, the unemployment rate dropped on a yearly basis down to 8.3% in 2006, the lowest rate since 1979. However, in the current global economic turmoil, unemployment increased to 3.7% in 2014.

2.2. Prices and Interest Rates

Spanish efforts to meet the Maastricht convergence criteria for the European Monetary Union have resulted in a stabilization of prices and a decrease in interest rates to historic lows. In 2013, the official interest rate was stated as 4.0%; as of November 2014, the year-on-year inflation rate was -0.372%.

2.3. Foreign Trade and Balance of Payments

- While Spain's foreign trade in merchandise shows a consistent deficit, services and transfers have produced consistent surpluses. In the last few years, Spanish exports have grown at a higher rate than the average for world trade and at a higher rate than its imports.
- There has been a commercial specialization in capital intensive activities and economies of scale, while technologically intensive sectors of the economy continue to show weakness.

2.4. Financial Institutions

- Commercial, merchant, and savings banks are involved in the great majority of financial transactions in all sectors of the Spanish economy.
- Savings banks handle business transactions and are similar in their operations to the commercial banks, but tend to specialize in private savings, personal loans, and the financing of house purchases.

2.5. Stock Market

Stock exchanges in Madrid, Barcelona, Valencia, and Bilbao provide markets for government securities, public and corporate bond issues, and shares in leading Spanish companies.

3. Foreign trade and investment

Rapid growth in global trade and foreign investments in recent years has made Spain one of the most internationally oriented countries in the world.

- In the trading of goods, Spain is ranked 20th in the world as an exporter and 17th as an importer. In the trading of services, it is ranked 8th in the world as an exporter and 16th as an importer.
- Spanish exports and imports of goods account for 1.6% and 1.8% of the worldwide total, respectively, while Spanish exports and imports of services represent 3.1% and 2.1% of the worldwide total, respectively.
- The breakdown of foreign trade by industry is relatively diversified, as can be seen in Table 1.

Table 1: Distribution of Exports and Imports, 2013 (% of total)

Exports	Imports
Capital goods 20.7%	Energy products 22.8%
Food 15.2%	Capital goods 17.2%
Automobile industry 14.3%	Chemical products 15.3%
Chemical products 14.2%	Food 11.0%
Semi-man. non-chem. products 10.8%	Automobile industry 10.3%
Consumer goods 8.8%	Consumer goods 10.2%
Energy products 6.9%	Semi-man. non-chem. products 6.8%
Other goods 5.0%	Raw materials 3.8%
Raw materials 2.6%	Durable consumer goods 2.2%
Durable consumer goods 1.5%	Other goods 0.4%

As would be expected, countries in the European Union (EU) are Spain's main trading partners. Accordingly, during 2013, Spanish exports to the EU accounted for 62.6% of total exports, of which 49% represented sales to the Eurozone. Alternately, imports from the EU represented 51.5% of the total, and those from the Eurozone represented 41.5%.

Spain's leading trade partners are France and Germany. Outside of the EU, Asia and Africa have displaced Latin America and North America as Spain's main non-EU trading partners.

With regard to investment, Spain is one of the main recipients of investments worldwide. According to the United Nations Conference on Trade and Development (UNCTAD), Spain was the 12th largest recipient of foreign direct investment worldwide in 2012 with $634,539 million, and the 5th largest in the EU. Moreover, Spain is also one of the main foreign direct investors in the world totaling $627,212 million in 2012, making it the 11th largest investor worldwide.

Recently, an attractive program to appeal to foreign investment was approved in Spain. The Spanish government will grant residency visas to foreign nationals such as: a) those who create employment through the establishment and implementation of business projects; b) those who have made a relevant impact from a socio-economic, scientific, and technological innovation perspective, a significant investment, or a general interest project; c) those who invest at least €500,000 in properties in Spanish territories (total minimum investment, which can consist of the purchase of several properties); d) take on public debt amounting to €2 million, or €1 million in Spanish bank deposits or Spanish company shares.

The Residency Visa will allow the petitioner to stay in Spain for at least 1 year. Applying for a Residency Visa authorization period above 1 year is possible, provided that the applicant has travelled to Spain at least once within the authorized period and has kept the investment of at least €500,000. The Residency Visa will allow the petitioner to stay for 2 years and to reapply for an additional 2 years.

4. Setting up a business

There are many ways in which a business may be set up in Spain. This section outlines the most common methods.

4.1. Public Limited Company/Sociedad Anónima (SA) and Private Limited Company/ Sociedad Limitada (SL)

The Sociedad Anónima (SA) is normally used by medium to large corporations to establish business, while the Sociedad Limitada (SL) is used by small- to-medium-sized corporations. The responsibility of the shareholders in both types of company is, in principle, limited to their shareholding in the capital of the company.

The SA is required to have a minimum share capital of €60,000, of which a minimum of 25% must be paid up upon incorporation. There are higher minimum capital requirements for specific types of SA corporations, such as banks and insurance companies. The SL is required to have a minimum capital of €3,000, which must be paid up in full upon incorporation.

The capital of the SA and SL may be paid up in cash or in kind (equipment, stock, property, etc). The cash contribution to the capital must be certified by a bank, and any contribution in kind must be independently valued by appointment of the Companies Registry for the SA. For the SL, any contribution in kind will not require an independent valuation.

The directors' report must be approved by a general meeting. The SA or SL may opt for a board of directors, or a system made up of one or several administrators.

Spanish law does not establish a minimum number of shareholders to be incorporated in an SA or SL. However, sole shareholder companies are subject to a special system of publicity. This exceptional condition must be recorded in the company registry and stated on all corporate stationery and legal documents. Both the SA and SL must be incorporated before a notary public; the minimum information requirements include information regarding the shareholders, registered office, business activities, capital structure, year-end accounting, and intended duration of the company, which may be limited or unlimited. The deed of incorporation usually includes the minutes of the first meeting of the company, during which the administration of the company is decided upon.

4.2. Setting Up a Company

The formalities and expenses involved in setting up a company are similar for public limited companies (SAs) and liability companies (SLs).

Setting up an SA or SL through capital contribution usually takes between 4 and 6 weeks, with the following required formalities:

- The formal act of incorporation of the company is executed before a notary public who drafts the correspondent public deed, the Memorandum and Articles of Association.
- The share capital should be fully subscribed, with at least 25% disbursed when the company is incorporated. The remaining 75% should be disbursed within the period stipulated in the Articles of Association. In the case of an SL, the full share capital is payable upon constitution.
- The minimum share capital required is €60,000 for an SA and €3000 for an SL.

Table 2 lists the formalities necessary in the establishment of an SA or SL.

Table 2: Necessary Formalities

1. Clear name search certificate
Application to the Central Companies Registry by the interested party or anyone authorized by it (may contain up to 3 alternative corporate names). The Central Companies Registry will issue a name reservation certificate for the new company. Names are reserved for a period of 6 months from the date of issue of the certificate.
The notary, the interested party, or anyone authorized by it may apply online for a clear name search certificate that may contain up to 5 alternative corporate names from the Central Commercial Register, which issues the certificate within 1 business day of the application.
2. Application for provisional Tax Identification Number (NIF)
State Tax Agency
The notary authorizing the deed of formation will request the assignment of a provisional NIF by the State Tax Agency via online means.
3. Opening of a bank account
A bank account in the entity's name is opened for payment of the capital stock. Once the founding shareholders have paid the capital, the bank must issue payment certificates.
4. Document containing representations by the beneficial owner
The founding shareholders must execute a document containing representations by the beneficial owner in accordance with Spanish Law 10/2010 of April 28.

5. Execution of deed before a notary public
The founding shareholders must execute a public deed before a notary public, containing: (i) Evidence of the identity of the founding shareholders. • If any of the shareholders is represented at the act of formation, a notarized power of attorney to represent the shareholder must be produced to the notary public. If the power of attorney is issued abroad, it must be duly legalized. (ii) Representations by the beneficial owner (see Item 4). (iii) Evidence of contributions and whether they are to be made in cash or in kind (if applicable), using the corresponding bank documentation and details of the capital stock subscribed by the shareholders (see Item 3). (iv) Clear name search certificate issued by the Central Companies Registry (see Item 1). (v) Company bylaws. (vi) Identification of, and acceptance by, the public deed by the company directors. (vii) Subsequent declaration of foreign investment to the Register of Foreign Investment of the Directorate-General for Trade and Investment (DGCI) of the Ministry of Economy and Competitiveness. In some cases, limited mainly to foreign investments from countries or territories deemed to be tax havens, a prior declaration must be made.

6. Application for registration of the registered office at the Central Companies Registry

The deed of formation will be submitted:

(i) online by the notary; or
in person by the interested party.

The deed of formation will be submitted online on the day it is executed by the notary public.

7. Period for assessment and registration in the Central Companies Registry

- Ordinary procedure: Fifteen (15) days from the date of the entry recording the filing of the deed, unless there is just cause, in which case the period will be 30 days.
- Simplified procedure: Three (3) business days, from the receipt of the deed online.
- Super simplified procedure: Within 7 business hours (according to the business hours of the Registry) of the receipt of the deed online.

8. Obtaining definitive NIF

State Tax Agency.

9. Opening formalities for tax and labor purposes

Submission of Form 036L: Registration is required for the purpose of taxation of economic activities. Newly forming companies must describe the activities they intend to pursue, and the reason why they are exempt from this tax.

The following, among others, are exempt:

- Individuals
- Legal entities during the first 2 years they pursue their activities.
- Legal entities whose net turnover is less than €1 million. This step must be completed before the company commences operations.
- Registration for the purposes of VAT.
- Obtainment of an opening license from the relevant municipal council.
- Registration of the company for Spanish social security for employees, and for occupational accident insurance.
- Procedural formalities at the provincial office of the Ministry of Employment and Social Security.

- Fees and Costs
    - Fees of the notary public handling the formation are charged on a sliding scale based on the capital stock. For guidance purposes, the official rates amount to approximately €90 for the first €6010, after which rates between 0.03% and 0.45% are applied for capital stock below €6,010,121. For any amount in excess of €6,010,121, the notary public will receive an agreed-upon amount from the executing parties. For limited liability companies, notary fees amount to (i) €150 under the simplified procedure, and (ii) €60 under the super simplified procedure.
    - Fees for registering the company at the local Commercial Registry are official rates that amount to €6.01 for the first €3005, after which there is a sliding scale ranging from 0.005% to 0.10% for capital in excess of €6,010,121. The total fee is capped and may not exceed €2181. For limited liability companies, the fee amounts to (i) €100 under the simplified procedure, and (ii) €40 under the super simplified procedure.
    - Transfer tax under the "corporate transactions" heading, exempt in accordance with Royal Decree Law 3/2010 (see Chapter 3).
    - Opening license. A one-time municipal tax, usually a relatively small amount.
    - Other expenses (eg, professional fees), which are not readily quantifiable

4.3. Joint Ventures With Other Companies Established in Spain

Joint ventures are one of the most attractive and ideal ways of doing business in Spain, as they provide for sharing risks and combining resources and experience. Spanish regulations allow for varying types of joint venture:

- Economic Interest Grouping (EIG) or European Economic Interest Grouping (EEIG)
- Temporary Business Associations (UTE)
- Participation Account
- Joint ventures through SA and SL

4.4 Other Methods of Investing

- Entering into a distribution agreement
- Investment representative or commission agent
- Franchise
- Purchasing shares of an existing company (in whole or part)
- Purchasing real estate in Spain

4.5 Opening a Branch

In terms of requirements, formalities, and expenses, opening a branch is similar to setting up a company. The main differences are their legal formalities and expenses; the deed of establishment of the new branch must be executed before a notary public. This procedure consists of publicly formalizing a previously adopted resolution to open the branch by the parent company's board of directors.

4.6 Purchasing Shares in an Existing Company

Transfer of shares in SA and SL should always be formalized before a public notary. The cost is comprised of the notary's fees and the price of the shares.

5. Labor

Employment in Spain is legally regulated through general rules and collective agreements which vary by sector. The length of the work week is 40 hours per week, maximum. The termination of the contract and its dismissal are regulated by law. The social security system is obligatory in Spain and provides for all situations from work accidents to retirement.

The principal characteristics of employment and social security are summarized in this section.

5.1. Employment Contracts

Written employment contracts are obligatory. The hiring of employees without written contracts can result in serious consequences for the employer, including heavy fines. Special care should be taken in the employment of foreigners, particularly those from outside the EU, by ensuring that all necessary documentation is in order prior to signing the contract.

5.2. Trial Period of Employment

The trial period is a set amount of time during which the working relationship established by the contract of employment can be broken without the obligation of compensation. Trial periods are normally established in collective agreements.

5.3. Types of Employment Contracts

Employment contracts of unlimited duration are encouraged by lawful incentives that may vary between regions, depending on the activity of the company and the situation of the employee. The company can obtain grants or subsidies for social security in certain cases.

There are different types of employment contracts that can meet the different needs of each employer. The most common contracts include:

- Those established for a specific period of time, or temporary contracts (to meet specific production circumstances)
- Indefinite, part-time, and training contracts

5.4. Social Security

All employees of businesses, as well as self-employed persons, must be covered by social security; contributions are obligatory. Self-employed persons are responsible for paying their own contribution. An employer is responsible for paying the contribution of employees to the Spain's Social Security administration, deducting the corresponding quota at the time salaries are paid. To this deduction, the employer's contribution to social security must be added, approximately 30% of the employee's gross pay.

The sum of both amounts must be included in the official form used by the employer to settle the payment. The deadline is 1 month after establishing the employee's salary.

6. Taxation

The Spanish government levies taxes on personal income and wealth, company profits, value added goods and services, property transfers, inheritances, and gifts. Some tax monies are administered and collected by Spain's autonomous regional governments. In addition, local authorities levy taxes on property and its capital gains, new construction, and business activity, though the latter applies only to large companies.

Taxes in Spain can be schematically classified as follows:

1. Direct Taxes

a. Taxes on income
   - Individual income tax (Impuesto sobre la Renta de las Personas Físicas, or IRPF)
   - Non-resident income tax (Impuesto sobre la Renta de No Residentes)
   - Corporate tax (Impuesto sobre Sociedades, or IS)

a. Wealth taxes (for individuals only):
   - Wealth tax (Impuesto sobre Patrimonio)
   - Inheritance and gift tax (Impuesto sobre Sucesiones y Donaciones)

2. Indirect State Taxes

a. VAT
b. Estate duty (Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados)
c. Special taxes on alcohol, hydrocarbon, and tobacco (Impuestos Especiales)
d. Import taxes (Derechos arancelarios a la importación)
e. Insurance premium taxes (Impuestos sobre las Primas de Seguros)

3. Regional Taxes (Tasas y contribuciones especiales)

4. Town Council or Municipal Taxes

a. Real estate tax (Impuesto sobre Bienes Inmuebles, or IBI)
b. Economic activities tax (Impuesto sobre Actividades Económicas)
c. Tax on mechanical traction vehicles (Impuesto sobre Vehículos de Tracción Mecánica)
d. Tax on construction, installations, and works (Impuesto sobre Construcciones, Instalaciones y Obras)
e. Local capital gain (Impuesto sobre el Incremento de valor de los Bienes de Naturaleza Urbana). This tax is accrued upon transfer of the Real Estate

6.1. Basis of Taxation

Tax liability is decided by the residency of companies or individuals, by the location of assets, and the source of income. Residents in Spain pay tax on their worldwide income, whereas non-residents are generally only subject to tax on Spanish-sourced income.

Foreign income is fully taxable, but a credit for foreign tax paid may be given in accordance with double taxation agreements. An individual is considered a resident for the entire year if he/she is in Spain for 183 days or more in 1 calendar year. Resident individuals who change their fiscal residence to tax havens will be considered fiscal residents for the following 4 years.

Corporations whose effective head office is in Spain can be deemed resident. Non-resident corporations are subject to corporation tax only on income arising from business conducted in Spain. In some director-controlled companies, profits may be directly assigned to the shareholders and assessed for individual income tax instead of corporation tax.

The fiscal year of a company cannot exceed 12 months, and any reduced period resulting from a change at year-end will be considered a separate tax year. This may prejudice the carrying forward of tax losses.

6.2. Corporate Tax

The general corporate tax rate in Spain is currently 28% (2015). For 2016, the general tax rate will be reduced to 25%. In some cases, companies with a turnover of less than €10 million will be taxed at 25% for the first €300,000 of profit and at 20% for the rest of the profit for 2 years (the first fiscal year with positive income, and the subsequent fiscal year).

However, there are a number of deductions that can often reduce overall tax liability. A deduction is applicable to profits generated by the sale of fixed assets, provided the proceeds are reinvested. Other tax credits relate to the avoidance of double taxation on dividends and capital gains through international double taxation agreements, investment in assets used to protect the environment, the employment of handicapped persons, and research and development.

Corporation tax is payable within the 6 months and 25 days following year-end. However, advance payment is required 3 times a year at a rate of 18% of the tax paid for the previous year. Optionally, such payments can be based on current-year performance. The latter is compulsory for companies with turnover in excess of €6,010,121.04, where the payment on account is 21% of the profit for the period.

The tax regulations contain numerous provisions for the treatment of transactions with residents and resident entities of tax havens. Tax losses can be carried forward for a maximum of 15 years. Holding companies of foreign investments are not taxed for dividends or certain other income received from outside Spain if the shares have been held for at least 1 year.

6.3. Spanish International Holding Companies

Since January 1, 1996, Spain joined those countries that have already included international holding companies in their tax legislation. Spanish international holding companies are not taxed for dividends or shares of profits received from abroad, as long as the shares or investments have been held for at least 1 year before the dividend is payable and the participation is of at least 5%.

In addition to the above, these companies have many advantages; one of the most important is the taxation of the partners or shareholders of the holding company. The potential sale of the shares of participating companies is not subject to taxation in Spanish international holding companies.

6.4. Non-Resident Fiscal Representation

Non-residents and companies subject to income or corporation tax must, in certain cases, appoint a fiscal representative. Failure to do so may result in a fine of €2000.

6.5. Withholdings and Prepayments

Non-operating income from interest and dividends is subject to a 21% tax rate. No exception is made for amounts paid by group companies. For non-residents, non-operating income from rents and royalties is subject to 24.75% tax withholding at the source. Non-residents are subject to a 3% tax withholding on the sale of real estate.

6.6. Individual Income Tax (IRPF)

The individual income tax law introduces the concept of total income as the taxable base. There are several general reductions per taxpayer, depending on the taxable base:

- €3700 when the tax base is equal to or lower than €11,250
- For taxpayers with a taxable base from €11,250 to €14,450, the general reduction is €3700, plus the amount resulting by multiplying the difference between the tax base and €11,250 by €1.15625

There are further reductions on the taxable base when the taxpayer is aged 65 or older. Disabled taxpayers can also benefit from certain reductions, and other reductions are allowed for dependents.

Salaries, wages, commissions, interest dividends, business profits, and capital gains are taxed as income. Taxpayers with wages or salaries less than €22,000 do not need to make an annual tax declaration.

As of 2015, the minimum individual tax rate is 20%, and the maximum is 47%. Some regional governments had established maximum rates that reached 52% from 2012 to 2014. Spanish nationals cannot avoid income tax by taking up residence in tax havens, as they will continue to be considered residents of Spain.

Non-residents are taxed under a separate tax law. Benefits in kind are taxable, except for medical insurance. Deductions are allowed for social security contributions, subscriptions, and certain legal costs. The progressive scale of individual income and corresponding Spanish individual tax rates for 2015 to 2016 are shown in Table 3.

Table 3: Progressive Scale and Tax Rate Percentages, 2015-2016

Taxable Income (€)	2015	2016
Up to 12,450	20%	19%
12,450 – 20,200	25%	24%
20,200 – 34,000	31%	--
20,200 – 35,200	--	30%
34,000 – 60,000	39%	--
35,200 – 60,000	--	37%
60,000 and over	47%	45%

Taxable income is divided into general and savings portions for capital gains and losses generated by patrimonial assets, interests, dividends, etc. The general portion of the income is taxed according to the general tariff, while the savings portion is taxed at a fixed rate as follows:

- 21% for the first €6000
- 25% from €6000 to €24,000
- 27% for any amount above

General and savings losses can only be offset against general or savings gains, respectively. Losses that are not offset in the same year can be carried forward for 4 years. The inflation index will apply in the future only to property transactions. The tax deduction payable for the purchase of a main residence is now a total of 15% of the cost of acquisition, up to a limit of

€9040, which is deferred in cases in which the purchase is being financed by a loan (only for purchases prior to January 1, 2013). Capital gains from the sale of a principal residence are tax-exempt, up to a certain limit, when the proceeds of the sale are reinvested.

6.7. Non-Resident Income Tax

Non-resident income is subject to a flat tax rate of 20% for countries within EU, Finland and Norway; or 24% (general rate). This tax does not apply to dividends, interest, and capital gains obtained on the sale of patrimonial assets, for which the tax rate is 20%.

Non-resident property owners are subject to an income tax of 20% to 24% on 2% of the cadastral value, or 1.1% if the cadastral value has been reviewed. This is considered "deemed income" and is the object of much debate.

Non-resident companies are subject to corporation tax on 3% of the value of the properties owned by the company. Non-resident companies that are resident in a country which has a double tax treaty with Spain, with a clause of exchange of information, are exempted from providing certificates to the Spanish tax authorities, stating that the shareholders are residents in a country with the same conditions.

6.8. Value Added Tax (VAT)

The VAT rules and regulations are based on the EU Sixth Directive. Business transactions are taxed at 21%, and certain basic products and services at 10% or 4%. Exports and similar services are not subject to VAT.

*Table 4: VAT Percentage Rates**

Type of Rate	%
General	21
Reduced rate (goods, dwellings, transport, tourism, etc)	10
Super-reduced rate (basic needs)	4
Export-related goods and services	0

***Different rates are levied in the Canary Islands.*

6.9. Tax on Property Transfer

All transfers of land and buildings, under any title of transfer except succession and donation, are taxed at an average rate of 10% of the value (8% to 10% in most autonomous regions), except in the case of first sales from a real estate promoter on which VAT is payable. The rate of VAT in these cases is 10% on houses and 21% on urban land. Transfer of items other than land, buildings, and rights over real estate are taxed at 4%. Public documents that require registration are taxed at 1%.

6.10. Tax on Capital

A tax of 1% of the capital is levied upon incorporation and on any increase in capital. Since December 2010, these transactions are exempt. Mergers and acquisitions are taxed at the same rate, as are reductions in capital and liquidations. Tax on mergers is exempted where these are based on EU Directive 90/435.

6.11. Inheritance and Gift Tax

Inheritance and gift tax is levied only on individuals and not on companies. It is levied on property, assets, and rights transferred between individuals by gift or upon death through inheritance. Gratuitous transfers to corporations are not subject to this tax.

Transferred assets are valued at their real market value; in some cases, this may be different from the fair market value. For inheritance tax purposes, the value of the deceased's household furnishings is assumed to be 3% of the inheritable mass.

Additionally, for inheritances, the taxable base of the estate is reduced by the family allowances provided by law, if applicable. There is also a 95% deduction of the value of family businesses, qualified holdings, and the permanent residence of the deceased. For gifts, the family allowances and 95% deduction of the permanent residence are not applied. The 95% deduction of the value of family businesses and qualified holdings only applies if, among other conditions, the transferor is aged 65 years or older. This tax, which increases on a progressive scale, has the peculiarity of taking into account pre-existing wealth and degree of kindred. This means that, for example, two brothers inheriting on equal terms will be taxed at different rates based on their pre-existing wealth.

The autonomous regions of Spain are authorized to set up their own tax rates within certain limits. If a region fails to set up its own rates, or the taxpayer or the deceased is a non-resident, the default progressive rates according to the general law are applied as shown in Table 5.

Table 5: Default Progressive Rates per General Law

Taxable Income (€)	Tax on Lower Amount (€)	Rate on Excess (%)
Up to 7993.46	0	7.65
7993.46 – 15,980.91	611.50	8.50
15,980.91 – 23,968.36	1290.43	9.35
23,968.36 – 31,955.81	2037.26	10.20
31,955.81 – 39,943.26	2851.98	11.05
39,943.26 – 47,930.72	3734.59	11.90
47,930.72 – 55,918.17	4685.10	12.75
55,918.17 – 63,905.62	5703.50	13.60
63,905.62 – 71,893.07	6789.79	14.45
71,893.07 – 79,880.52	7943.98	15.30
79,880.52 – 119,757.67	9166.06	16.15
119,757.67– 159,634.83	15,606.22	18.70
159,634.83 – 239,389.13	23,063.25	21.25
239,389.13 – 398,389.13	40,011.04	25.50
398,389.13 – 797,555.08	80,655.08	29.75
797,555.08 and over	199,291.40	34.00

In several autonomous regions (Comunidades Autónomas), the effective rate after reductions is very low (less than 1 %).

6.12. Municipal Tax on Land Transfer

Any time land is transferred, regardless of whether it has been developed, the municipality levies a tax on the increase in value since the land was last transferred. The applicable tax rates vary according to the municipality.

6.13. Municipal Tax on Properties

An annual tax based on the cadastral value is payable to the municipal authority. Tax rates vary from 0.4% to 1.30% for urban property and according to the municipality.

6.14. Municipal Tax on Business Activities

An annual tax on business activities is payable to the municipal authorities. The tax rate depends on the type of activity, the zoning of the street on which the business is located, and the size of the municipality. At the present time, this tax is applicable only to large companies.

7. Accounting and reporting

Since 1990, Spanish domestic law has incorporated the rules and regulations of the European Economic Community (EEC) Fourth Directive on accounting, the reporting requirements of the EEC Seventh Directive on consolidated accounts for groups of companies; and the EEC Eighth Directive on the control of accounts and external audits.

All businesses are required to keep adequate accounting records in accordance with the Code of Commerce and the Spanish General Accounting Plan. All registered companies are obliged to file an annual reporting pack including a balance sheet, profit and loss account, notes to the accounts, statement of changes in the net equity, and a director's report.

Since January 1, 2002, all companies must keep their accounting records in Euros. For companies that are obliged to file full accounts and are therefore subject to an external audit, a copy of the audit report must be included in the reporting pack.

Small companies may file abridged accounts, provided they do not exceed the following limits for 2 consecutive years:

- Total assets of €2,850,000
- Net turnover of €5,700,000
- Average number of employees=50

All companies exceeding the above limits are required to file the complete reporting pack and submit to an annual external audit.

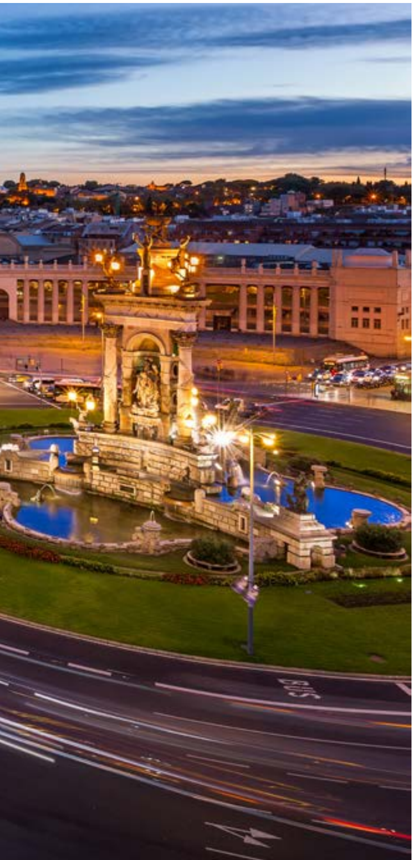
Auditing is a legally regulated activity in Spain. The audit law of 2010 restricts the audit of accounts to suitably qualified persons or firms who are inscribed in the Spanish Official Register of Auditors of Accounts (ROAC), maintained by the Spanish Institute of Accounting and Auditing (ICAC). Persons or firms who are not so ascribed cannot legally act as independent auditors of accounts in Spain, no matter what other Spanish or foreign qualifications they may have.

A minimum professional indemnity insurance of €300,000 per partner is obligatory by law. Auditors may practice individually, in a partnership or as a corporation. Statutory corporate records should include:

- Incorporation deeds
- Memoranda and articles of association
- Books of minutes (shareholders' and directors' meetings)
- Registers of shares or participations

The official book of accounts must be legalized by the Companies Registry and must be kept together with all the supporting documentation for 6 years.

8. Intellectual property and technologies



In Spain, legislation and the courts grant a high level of protection in terms of intellectual property rights as it is a constitutional matter that falls under Article 20.

Spain has ratified the main international Treaties and Agreements dealing with intellectual property rights. Among others, our country is a signatory State of the Treaty that established the World Intellectual Property Organization ratified on May 12, 1969. Spain is also a member of the Paris Convention for the Protection of Intellectual Property, ratified on December 13, 1971, and is a founding member nation of the World Trade Organization, ratified on December 30, 1974. Additionally, Spain is also a signatory state of the agreement that oversees intellectual property rights and trade, which protects intellectual property rights via the following protection systems:

- **Through the copyright system,** original artistic creations made by any means or format are protected, including pictorial, photographic, literary, scientific, musical, audiovisual, architectural, sculptural, and applied work.
  - Through this system, the rights of musical and audiovisual producers, as well as the artists and their interpreters, are also acknowledged.

- **Through the trademark system,** a protection of the distinctive signs which distinguishes products and services is obtained. Such protection can be obtained through 3 available systems:
  - International System: As member of the Madrid System, Spain guarantees protection to those international trademarks which have requested protection in its territory.
  - Community System: As member of the EU, EU trademarks have protection in all Spanish territories, as with any other trademark.
  - National System: If the trademark protection is specifically requested only for the Spanish territory, such protection can be obtained applying directly to the Spanish Office for Patents and Trademarks (SPTO).

- **Through the Patent System,** the protection of those inventions meeting 3 legal requirements (innovation, invention and industrial use) may be obtained.

  As member of the European Patent Convention (EPC), the protection of a patent in Spain may be obtained through a single procedure of applying to this system.

  At the same time, the Patent System allows improvements to the filing (not the concession itself) of a patent request applying to the system regulated in the Cooperation Treaty Regarding Patents (PCT). In this case, the Office for International Searching and International Preliminary Examination (OEPM) helps to execute all international steps in Spain.

  The OEPM is part of the Patent Prosecution Highway (PPH,) which consists of a collaborative structure among international intellectual property offices throughout bilateral and multilateral agreements. It allows the speeding up of procedures for the concession of patents. Currently, Spain has signed bilateral agreements with Canada (CIPO), Japan (JPO), United States (USPTO), Finland (NBPR), Russia (Rospatent), Portugal (INPI), Korea (KIPO) and Mexico (IMPI).

- **Through the design protection system,** the protection of the aesthetic two-dimensional or tridimensional appearance of a new design of singular character can be obtained. Such protection may be secured at the domestic level by registering the design at the OEPM, or within the EU at the Office for Harmonization in the Internal Market (OHIM).

It is important to note that Spain is a pioneer in granting a high level of protection to personal data, regulating e-commerce, and being an active member of the international harmonization of legislations with a view to achieving a perfect balance of knowledge and ethics in the global market.

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