

# **Banking & Finance in Spain**

**With Paraiso Homes**

## **General**

Irrespective of whether you are a resident or non resident the maximum amount of cash you are allowed to bring into or take out of Spain without having to declare it to any authority is 6,000€. Sums greater than this should be declared to the customs using a form Number B1 obtainable from your bank, this essentially informs the authorities of what you intend using the money for. In the event the amount exceeds 30,000€ then you need to complete the form B2 and request permission from the DGTE. These two forms B1 and B2 are valid for only 15 days so your journey has to take place within this period. Understandably perhaps, with unhindered freedom of movement within the EU, open borders at airports, frontiers and sea ports many people ignore these rules.

## **Banking**

Over the past ten years or so banking in Spain has changed immensely, they now sport very modern premises and the latest computer technology including on line internet banking. There are many banks, some clearing banks and others saving banks and it appears that even in small towns the number of banks are such that they outnumber the everyday shops in the high street. Competition is fierce and this tends to keep the standards high and the service keen.

If you are planning to settle or simply buy a property in Spain then one of the first things you should do is open a bank account. There are basically two types of account, one for Spanish residents and one for non residents both operate in a similar way except that non resident accounts do not incur tax retentions on any interest that might be earned. In Spain, 18 per cent of any interest earned will be withheld and remitted to the Spanish Hacienda. Initially it is likely that you would open a non resident account and for this you would need to produce a copy of your passport and sign a few forms. The account would be opened immediately but at some stage in the future your fiscal number would be required.

Choosing the right bank can be something of a challenge. If you intend purchasing a property then it is likely that you will transfer substantial sums of money from your account in the UK and therefore you would be wise to shop around for a low rate of commission. Typically banks charge up to 0.5% for this service, that's 2,500€ on a half million transfer. Paraiso Homes have a special deal with a local bank who charge clients a fixed 30€ irrespective of the amount transferred.

Most banks as previously mentioned now offer internet banking, a range of credit and debit cards and access to ATM machines. It is also worth enquiring about the charges made for the use of ATM machines and any other charges like cheque cashing, account maintenance, credit facilities and so on.

## **Taxes in Spain**

When it comes to taxes Spain like most other countries in the world has its share of statutory obligations and many diverse ways of collecting its dues. Most but not all of the town halls in the Costa Blanca employ a private company known as SUMA to collect Municipal taxes. Such taxes are paid annually and only during specific periods of the year. You can pay them by going to the Town Hall or Suma office or arrange payment directly by bank transfer. This takes a little time to organize and there are the usual forms to be completed but it is worth it in the end since you can sleep easily in the knowledge your taxes are being paid on time and you are not going to face a fine for missing a contribution.

It is not the intention of this article to go into depth on the subject of taxes but rather to look at the more unpopular ones affecting most people living in Spain. Property tax for example, (not the taxes incurred when you buy a house, this subject will be covered elsewhere) these taxes are paid annually and can be compared to the rates in the UK. The property tax in Spain is affectionately known as IBI (eebee) - Impuesto sobre Bienes Inmuebles.

This tax is based on something known as the Catastral value that is to say the value of your house according to an assessment made by the local tax authorities. The IBI tax for identical or

similar property varies considerably from town to town. You will pay much more for a small town house in Benidorm than for a substantial villa in the country. If you live in a rural area you could find your property tax as low as 75€ per year whereas in one of the principle resorts you could pay 1,000€ for an average size villa. In any event the rates in Spain are usually considerably less than those paid by property owners in the UK.

Income tax - two words many people arriving in Spain think they can forget – but unfortunately they can't. Taking up residency will free you from the clutches of the UK Inland Revenue but will also bring you into the jurisdiction of the Spanish Hacienda.

The new millennium saw the introduction of radical changes in the Spanish income tax laws. In fact income tax rates were cut dramatically with substantial reductions for low income earners. The changes in the method of collecting income tax were such that by introducing withholding taxes, money deducted from a persons salary at source, meant that a considerable number of taxpayers now no longer have to complete an annual tax return. The rule is that anyone earning less than 21,000€ per year is not required to file a tax return, this is because tax has already been deducted at source from the salary.

Supposing you are not a Spaniard, don't work and therefore do not have tax deducted from your salary, also your income is less than 21,000€ you might think that in these circumstances you do not have to make a tax declaration - but you would be wrong. Unfortunately foreign residents with the right to apply the double taxation rules are obliged under the law to make an annual income tax declaration.

You become legally liable for Spanish Income tax once your stay in Spain exceeds 6 months (183 days to be precise) in one calendar year whether you are a resident or a non resident. There are treaties between countries concerning double taxation, these allow taxpayers to legally avoid taxation by both countries, it is well worth investigating these possibilities at an early opportunity. Should you find yourself in a position where you are liable to pay income tax in Spain then international agreements make your total annual taxable income. This includes interest from investments, pensions including old age pensions and any other income you may have.

Wealth tax – as a property owner in Spain whether or not you are a resident you must take into account this tax known as Impuesto extraordinario sobre el patrimonio. Which translates to - "an extraordinary tax on your assets".

There are different rules for non residents when it comes to wealth tax, as a non resident you are only required to declare those assets you own in Spain. However, if you are a resident then you are obliged to declare your world wide wealth and all your assets, including such things as stocks, shares, business interests, boats, property and even jewellery. However, unless your total assets exceed 110,000€ there is no tax to pay.

It is necessary to declare your assets at the same time as you declare your income tax using a form number 714. The tax is on the face of it very small only 0.2% of the assets value however there are other implications which are beyond the scope of this article to explain.

It is possible to arrange your own tax affairs but it is far simpler to engage the services of an Gestoria or Accountant to help you through the bureaucratic maze.

## UK-Spain double tax treaty - Taxation of income and gains

Rental income	Capital gains on disposal of property	Business profits	Dividend income	Interest income	Pension income
Taxed in country where property is situated Election to Inland Revenue to receive gross available	Taxed in country where property is situated Possible deductions and exemptions available for sale of UK property	Taxed in country where company is based If permanent establishment in other country, taxed in that country as well	Taxed in country where shareholder is resident	Taxed in country where beneficiary is resident Provisions for withholding tax	Taxable in country of residence Election to Inland Revenue to receive gross available <i>Exception: Taxpayer was a civil servant In this case taxed in country of original employment</i>

### Money Transfers

As mentioned above, moving money in and out of the country by way of bankers transfer as oppose to physically carrying cash across the border, can be a costly business, furthermore more rules apply concerning how much you can freely transfer without notification to the authorities. The maximum sum allowed to be transferred electronically or by way of a bank cheque drawn in a foreign currency is 600€ without any controls being applied. Sums greater than 600€ must be declared and the bank will require you to provide the name and address of the recipient and the reason for the transfer.

A Spanish resident who is receiving money from abroad must also declare the name and address of the non-resident who sent the money and the reason for sending it. If however the amount received is more than 6,000€ then the details have to be detailed on form number B-3.

The same is true if you receive a monthly pension from abroad, each month as it arrives so it has to be declared.

Transfers between non-residents are different but never the less require authorization and proof of the original importation of foreign currency has to be provided by means of a form B1 or B3. This scenario is one that frequently occurs when a non-resident buys a property from another non-resident and the transaction is to be carried out in foreign currency.

### Offshore Banking

The Channel Islands, the Isle of Man and Gibraltar are well known established tax havens how long they will stay this way remains to be seen. Certainly the UK Inland Revenue is not unaware of these offshore accounts to the extent that it has been reported that more Revenue officers work in Companies house in the Isle of Man than do Manx Nationals.

Operating an offshore account with the aim of hiding undeclared funds from the tax man is a becoming more risky each year that passes. All the main UK clearing banks with branches in the Channel Islands use the same computer systems so it seems likely that access to information by the UK tax authorities would be a possibility, if not a certainty.

The exchange of information between EU countries seems to be developing at a pace and it's unlikely you would receive any warning that the tax authorities were examining your offshore accounts. Having said all this it may be worth considering reducing the effects tax by establishing an off shore trust in one of the many tax havens.

**Spanish Inheritance Tax** Assets located in Spain will be taxed upon inheritance, by the Spanish State and according to Spanish tariffs, whether one is resident in Spain or NOT, and whether the deceased leaves a will or not. Transfers between spouses are NOT exempt from inheritance tax in Spain. This can come as a very nasty shock to individuals coming from other countries where this situation does not arise.

Where a property is held in joint names, a substantial inheritance tax liability can arise on the death of ones beloved partner. Not only will the surviving partner have to cope with the loss and the trauma that result, but will also have to find the cash resources to meet a most unwelcome and penal tax bill. The tax assessed is payable within six months of death.

The inheritance tax payable is the liability of the inheritor and cannot be taken from the deceased estate. Therefore, where a property is inherited, the property itself cannot be used as collateral security to provide a loan, nor can it be sold until the tax is paid.

*N.B. If the tax remains unpaid after six months, additional interest and fees become payable.*

The initial calculation of inheritance tax is based on the net value of the estate. The rate bands range from 7.65% through to a top rate of 34%. For non Spanish residents it is calculated on Spanish sited assets only, but for residents, subject to the question of domicile, it could be their wealth worldwide. The inheritance tax liability increases according to the degree of kinship between the deceased and the people who inherit.

Direct relatives become liable to inheritance taxation where their inheritance amounts to more than €15,957. A direct relative is restricted to spouse, children and parents. Class two relatives become liable to inheritance taxation where their inheritance amounts to more than €7,993. Class two relatives are uncles, aunts, nephews and cousins etc. If a relative is further removed than in Class Two, or is un-related to the deceased, no allowances are given. This is a Class Three beneficiary. Common law spouses, and same sex partners, fall into this category, as unfortunately do step-children.

After the tax has been calculated, the pre-existing wealth of the heir and their relationship to the deceased must be considered. A Class Two inheritor will automatically have the tax assessed increased by between 59% and 90%. A Class Three inheritor will automatically have the tax assessed increased by between 100% and 140%.

Someone already wealthy, and not related to the deceased, could see the amount payable increase to 240% of the amount assessed. Unrelated wealthy beneficiaries have been known to pay a rate in excess of 80%. Examples, showing the amount of inheritance tax payable, by each Class of beneficiary, are given below:

<b>Value of Inheritance</b>	<b>250,000</b>	<b>500,000</b>	<b>750,000</b>	<b>1,000,000</b>
<b>Inheritance Tax Payable</b>				
Class One	38,874	106,021	180,396	262,697
Class Two	64,606	172,147	290,269	421,516
Class Three	85,432	221,536	370,288	536,244

If an inheritor already has assets in Spain amounting to more than €400,000, the amount payable will be greater than that shown above. The very sharp rises that we have seen in property values over the last few years can bring mixed blessings for expatriates owning Spanish properties and in particular highlights the need to plan ahead for Spanish inheritance tax liabilities.

Inheritance tax can be a very serious problem, and a very costly one at that, even if funds are available to settle the tax. However, with advice and careful planning the potential inheritance tax liability can be reduced substantially. Do not make the mistake of leaving any action until the last minute, because you never know when this will be.

### **A Solution to Paying Spanish Inheritance Tax on Your Property**

Working in collaboration with a leading international offshore bank there is a scheme that will totally remove any potential liability to inheritance taxation on property located in Spain. The scheme has been approved by an international firm of chartered accountants through its Madrid office, and works for both residents and non-residents of Spain.

The scheme is easy to understand, but totally effective. For further information contact Lucia in the legal department she will be happy to answer your questions, and can arrange a private and confidential appointment a senior advisors if you should wish.

The whole subject of tax avoidance is complex and requires the services of a specialist person, one who has knowledge of the latest EU and international tax laws and treaties. Search and Survey works closely with a firm of highly respected specialists who deal with our clients tax planning arrangements.

### **Mortgages - General**

Everyone is familiar with the notion of having a mortgage, borrowing a large sum of money and repaying it over a period of several years. Mortgages in Spain are no different although traditionally the repayment period is usually shorter than those offered in the UK. One major difference between UK lenders and the Spanish Banks is that generally speaking in Spain proof of the ability to repay the loan is often given little importance, at least not to the extent it would be in the UK. This means that you may well be granted a mortgage with a repayment schedule beyond your budget and this can have devastating results in the event a payment is missed. Loans are almost always secured on the property and you can expect to be offered a loan equivalent to between 50% and 80% of the banks valuation.

Banks are now very competitive in Spain when it comes to lending money, and with interest rates low in the Euro zone it is an attractive proposition and relatively easy to set up. However, it is not only interest rates that need to be considered, in Spain it is necessary to have your mortgage registered in the property register, and this means a trip to the Notary and yet another escritura. It also means Notary fees and Registry fees and of course taxes, all of which add up to a sizable sum. You will often find banks charge a setting up fee for arranging the mortgage which can be anything from 0.5% to 5% so it is important to shop around or take advice from those who know about these matters.