This report provides helpful information on the current business environment in Spain. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on Spain

Contents

RBC Royal Bank®

Important to Know

Official language

- Spanish

Currency

- Euro (EUR)

Bank holidays

2010	
January	1, 6
April	1, 2
May	1, 2, 15
August	16
October	12
November	1, 9
December	6, 8, 25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Spanish law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

SA (*Sociedad Anónima*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum share capital of EUR 60,101.21. At least 25% of the face value of each share must be paid up upon incorporation.

Private limited liability company

SRL / SL (*Sociedad de Responsabilidad Limitada*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of EUR 3,005.06. Authorized capital must be paid up upon incorporation.

SLNE. (*Sociedad Limitada Nueva Empresa*). This is a type of limited liability company (S.R.L.). The minimum capital that must be paid in full upon incorporation is EUR 3,012, and the maximum amount is EUR 120,202.

General partnership

SC (*Sociedad Colectiva or Sociedad Civil*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

S. en Com. / S. Com (*Sociedad en Comandita*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

S. Com. p. A. (*Sociedad en Comandita por Acciones*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties. This requires a minimum paid up share capital of EUR 60,101.21. At least 25% of the face value of each share must be paid up upon incorporation.

Cooperatives

There are two types of cooperatives (*Sociedades Cooperativas*) in Spain, both with limited liability: Grade 1 and Grade 2 cooperatives. Grade 1 cooperatives consist of at least three people and/or companies. Grade 2 cooperatives consist of two or more cooperatives. The Articles of Association establish the minimum capital required, and this must be paid in full at the time of formation.

Other organizational types

Spanish companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Spanish companies are entitled to establish a branch or a representative office in Spain. A branch's activities are subject to Spanish company law, although it is considered part of the company's head office and thus not a separate legal entity. Branches require no minimum share capital. To open a branch a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Spain.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be formed in accordance with Spanish law or have its principal establishment or its centre of management in Spain.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EUR) accounts outside Spain and foreign currency accounts both within and outside Spain. Residents are obliged to notify the central bank when opening or closing foreign currency accounts held outside Spain.

Non-residents are permitted to hold local currency and foreign currency accounts in Spain.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder. For legal entities, identification is by way of tax registration number or official articles of association and company formation documentation, while status documentation is required for foreign entities. Proof of the legal constitution must be obtained for non-commercial legal entities.
- All banks, credit and financial institutions have to identify clients for single transactions equal to or exceeding EUR 15,000.
- Banks are required to report all internal transfers exceeding EUR 80,500 and all international transfers greater than EUR 30,000.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Spanish law, banking and financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA in terms of value. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with a number of enterprises using third-party payroll agencies. They are also the most common methods of payment for business-to-business transactions. Card payments are commonly used for consumer transactions, with credit cards more popular than debit cards. There are three types of direct debits in Spain. *Domiciliaciones / domiciliación de recibos* are normal direct debits, used for recurring payments such as utility bills. *Anticipos de credito* and *efectos comerciales* are direct debits with a maturity date, which are increasingly being used instead of bills of exchange for short-term financing. Cheque use has been declining in recent years. *Confirming* (reverse factoring) is a payment management service that gives both suppliers and purchasers the opportunity to manage the timing of collection and payment and to negotiate the rates of discounting.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (EUR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	153.5	136.0	– 11.4	1,134.1	778.0	– 31.4
Credit transfers	733.0	780.4	6.5	10,142.1	10,681.1	5.3
Direct debits	2,222.3	2,308.9	3.9	930.4	860.0	– 7.6
Debit cards	863.0	921.5	6.8	39.7	41.7	5.0
Credit cards	1,037.5	1,144.4	10.3	56.3	59.8	6.2
Card-based electronic money	0.6	0.4	– 33.3	*	*	N/A
Other payment instruments	70.3	61.7	– 12.2	394.6	360.2	– 8.7
Total	**5,080.2**	**5,353.3**	**5.4**	**12,697.2**	**12,780.8**	**0.7**

*Negligible

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (EUR-denominated)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA transfers	Settlement in real time with immediate finality	17:00 CET
Non-urgent, low-value domestic consumer payments	Most payments are settled on a next-day basis	There are rolling cut-off times for different types of transactions: Direct debits = 23:00 CET Credit transfers = 23:30 CET Bills of exchange = 00:00 CET Cheques and petrol and travellers' cheques = 23:30 CET SEPA transfers =23:30 CET Other payments =23:30 CET
Non-urgent intra-EEA credit transfers with a maximum value of EUR 50,000*	Settlement either same-day or next-day	13:00 CET for same-day settlement or 01:00 CET for overnight settlement

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

The Banco de España collates balance of payments statistics based on mandatory reporting requirements of all transactions between residents and non-residents.

Transactions between residents and non-residents have to be reported to Banco de España every ten days if they exceed EUR 50,000. Transactions on residents' bank accounts abroad must be reported annually if the total transactions exceed EUR 600,000 or monthly if the total transactions exceed EUR 3 million. Netting operations involving non-residents must be reported monthly via a CP-1 form. Loans involving a non-resident counterparty must be reported if they exceed EUR 3 million. Commercial credits for terms in excess of one year involving a non-resident counterparty must be reported if they exceed EUR 600,000.

Exchange Arrangements and Controls

Spain applies no currency exchange controls.

Cash and Liquidity Management

Managing cash on both a domestic and cross-border basis is relatively straightforward, although there are a few restrictions.

Physical Cash Concentration

Physical cash concentration is available from all large Spanish and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure, although, for tax reasons, each entity participating in a structure is considered a separate legal entity.

Pools can be denominated in local currency (EUR) and some foreign currencies. A number of banks offer cross-border, cross-currency physical cash concentration.

Balance of payments statistical reporting requirements apply to all transactions between resident and non-resident bank accounts.

Notional Cash Pooling

Notional cash pooling is available from Spanish and international banks, but in practice is rarely offered. This is because Spain does not allow banks to offset credit and debit balances, making a notional pooling structure costly to operate. Where domestic notional cash pools are available, resident and non-resident companies can participate in the same structure.

As an alternative, some banks have developed interest rate optimization or enhancement products, which can include resident and non-resident accounts, for cross-border use.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one to 12 months, although these are often subject to minimum investment requirements. Banks also issue fixed-rate certificates of deposit (CDs), which are more popular with financial institutions as investments and are not widely used by companies. The *depósito financiero* is a more popular short-term investment with companies.

Non-bank instruments

Some Spanish companies and public authorities issue commercial paper (CP), but it is a more popular method of short-term investment with financial institutions than with companies. Investors have access to the wider euro commercial paper (ECP) market as well.

The Spanish government issues Treasury bills for periods of up to 18 months.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Spain to both resident and non-resident companies. Banks will usually charge a margin over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue commercial paper both into the domestic and the ECP market. Issues into the ECP market require a rating, whereas it is possible to issue commercial paper into the Spanish domestic market unrated. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Trade bills are commonly discounted and factoring (disclosed and undisclosed) is available.

Supplier credit and inter-company borrowing are also available.

Taxation

Corporate Taxation

- Resident companies are subject to taxation on their worldwide income. As a general rule, the standard Corporate Income Tax (CIT) rate for resident companies is 30%. Taxable income is defined as the difference between the income disclosed in the financial statements (adjusted in accordance with tax principles) and business expenditure that is deductible (which must be properly recorded and supported).
- Small resident companies (small companies being those with an annual turnover below EUR 8 million) are subject to a 25% tax rate on the first EUR 120,202.41 of their taxable base, and benefit from other tax incentives.
- Spanish tax law envisages the possibility of certain corporate groups being taxed on a consolidated basis, subject to certain requirements. The filing of a consolidated return has significant advantages, most notably that the losses of some group companies can be offset against the profits of others. Another advantage is the flexibility of transfer pricing rules within the group.
- Spanish tax law also envisages several tax credits such as foreign tax credits, a tax credit for reinvestment in the case of certain asset transfers, investment and professional training

tax credits, and a tax credit for expenses incurred in the tax period on scientific research, development and technological innovation activities.

- A special regime exists for foreign-security holding entities (ETVE) which allows for tax advantages such as the exemption from taxation of foreign dividends and of capital gains obtained from the transfer of participations in foreign entities, and exempts from taxation dividends and gains distributed to or realized by foreign shareholders.
- For non-resident entities without a permanent establishment, the general tax rate applicable to Spanish-sourced income is 24% (18% for dividends, interest and capital gains). Several exceptions may apply, such as interest and capital gains from movable capital obtained by EU-resident companies, income derived from non-resident accounts or income derived from the transfer of securities on official secondary Spanish stock markets.
- Non-resident entities that obtain income through a permanent establishment located in Spain are taxed on the total income attributable to the said establishment, regardless of the place where the income was obtained or produced. The rate is normally 30%. There is an additional 18% tax (branch profit tax) on the remitted profits of non-residents doing business through a permanent establishment in Spain, although protection is provided to EU member states and to entities resident for tax purposes in a state that has signed a tax treaty with Spain which does not expressly provide otherwise, provided that there is reciprocal treatment.

Advance Tax Ruling Availability

- Advance pricing arrangements may be agreed with the tax authorities in connection with certain transactions, including transactions with related entities based on market conditions, contributions for research, development and technological innovation, and management expenses that may be allocated to a permanent establishment in Spain of a non-resident entity.
- In addition, a taxpayer may request a tax ruling from the tax authorities regarding the related tax consequences of entering into specific transactions.

Withholding Tax (subject to tax treaties and other exemptions)

- As a general rule, a withholding tax of 18% is levied on dividends, interest, other profit distributions and royalties (24% in the case of the licensing of rights of publicity) paid by resident companies to resident companies or individuals. However, no withholding tax is levied on dividends paid between Spanish resident companies if the participation exceeds 5% and the holding period exceeds one year, and no withholding on interest is applicable among companies belonging to a tax-consolidated group.
- In the case of non-residents, the general withholding tax rate for dividends and interest is 18%. Royalty payments made to non-residents are subject to withholding tax at a 24% rate. Royalty payments to entities or permanent establishments residing in the EU are subject to a 10% rate in certain circumstances. Interest paid by a Spanish company to non-residents which are resident in another EU member state is not subject to withholding tax. Dividends from a Spanish subsidiary to its EU parent company are tax-exempt in Spain, provided that certain requirements are met (for example, 10% of participation held during one year). This exemption is not applicable when the majority of the voting rights of the parent company are held directly or indirectly by an individual or legal entity not resident in the EU, unless the parent company effectively engages in a business activity directly connected with the activity of the subsidiary, or has as its business purpose the administration and management of the subsidiary, or demonstrates that the parent company was formed for valid economic reasons and not merely to take advantage of the tax exemption.

Capital Gains Tax

- Capital gains are included in corporate income and hence taxed at the corporate tax rate.
- A domestic double taxation tax credit system applies, provided that certain conditions are met. In effect, the gain on a disposal of a domestic Spanish company is deemed to be the proceeds less the cost less the increase in net undistributable reserves.
- Moreover, under the Spanish exemption method to avoid international double taxation, gains deriving from the transfer of shares in entities not resident in Spain may be exempt from taxation provided that certain requirements and conditions are met.
- Tax on gains from the sale of certain assets (including tangible and intangible assets that have been used for the business

activity and have been in operation for at least one year prior to the transfer, and shares if the taxpayer has held at least 5% of the company for at least one year prior to such sale) benefit from a 12% tax credit if the total proceeds of the sale are reinvested in similar assets within three years after or in the year prior to the sale. This period may be extended on submission of a reinvestment plan, which needs to be approved by the tax administration. The tangible fixed assets or intangible assets in which the proceeds are reinvested must be assets used for business activities and must be put into operation within the reinvestment period.

- The credit will be computed in the tax year in which the reinvestment is made or the year of transfer of the asset if the reinvestment was made in advance.
- The assets in which the reinvestment is made must be retained by the company for the shorter of three (movable property) or five (immovable property) years or their depreciation period if the useful life of the asset is shorter.

Stamp Duty

- Provided that the loan is not documented in a public deed (which is suitable for registration in a public registry), stamp duty should not be chargeable.

Thin Capitalization

- Thin capitalization regulations limit the deductibility of interest on loans from a non-resident related party where the debt-to-equity ratio exceeds 3:1. Interest on excessive financing is treated as a dividend distribution and therefore will not qualify as a deductible expense. A proposal for the application of a different ratio may be submitted to the tax authorities.
- This rule is not applicable when the non-Spanish resident related entity is a tax resident in another EU member state, unless it is a resident of a territory classified as a tax haven.

Transfer Pricing

- In general, Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines are applied. It is possible to obtain advance rulings on such pricing arrangements from the Spanish tax administration.
- As of January 2007, transactions with related parties must be valued at their normal market value for tax purposes, and supporting documentation must be kept at the disposal of the tax authorities. The tax authorities may adjust the valuation agreed between related parties regardless of whether or not the value agreed on by the parties leads to lower taxation in Spain than that which would have been the case had the normal market value been used, or to deferral of such taxation.
- Related entities must justify such a valuation by means of appropriate documentation, which must be kept available for inspection by the tax administration (except regarding transactions carried out within the same tax consolidation group). Regulations following legal previsions and the lines established by the EU regarding documentation obligations were approved on November 3, 2008 and entered into force on February 19, 2009.
- The tax administration may impose penalties in the following cases:
  - where there is a failure to provide data, or the provision of incomplete, inaccurate or false data, in the documentation, which (in accordance with the applicable legislation) must be kept available for inspection by the tax administration; and / or
  - in the case that the arm's length value shown in the documentation provided differs from that declared in the corporate income tax, the personal income tax and the non-resident's income tax.

Sales Taxes / VAT

- As a general rule, VAT is levied on the supply of taxable goods and the rendering of services, at a standard rate of 16%. Additionally, there is a reduced rate of 7% (which applies to food, transport, tourism, etc.), and a super-reduced rate of 4% (on basic necessities). Export-related goods are zero-rated. Imports of goods are subject to the Spanish VAT rates that are normally applied to taxable goods in Spain. In the case of intra-EU acquisitions or supplies, specific VAT rules apply.
- Spanish tax law envisages the possibility of certain corporate groups being taxed on a consolidated basis for VAT purposes, subject to certain requirements.

Payroll and Social Security Taxes

- In general, employers have to pay social security contributions at the rate of 29.9%, although higher rates apply to temporary contracts. The rate is applied to a base amount that varies according to the salary bracket. The maximum annual contribution is EUR 11,360.33 per employee.
- Employer social security contributions are fully deductible for corporate income tax purposes.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

Report prepared September 2009.

31162