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### **Setting up a Spanish Limited Company**

Considering incorporating a Spanish limited company? Well here we set out some added benefits of setting up a Sociedad Limitada or S.L. as it is commonly known.

The incorporation of a company can bring important benefits for business people.

It is often thought that if a business is not registered with Hacienda as a going concern and the relevant taxes are not paid on a regularly basis that money is being saved. However this is not the case as registering your business with Hacienda and perhaps incorporating an S.L. and turning your business into a legitimate business in the eyes of Spanish law can bring added benefits to your business. Quite apart from the trauma of having to worry about whether the next knock on your door will be from the Spanish tax-man.

If a businessman in the construction industry decided to incorporate a Sociedad Limitada ("S:L.") various items of expenditure are considered as tax deductible whereas if you purchased these in your own name they would not be. For example if the businessman decided to purchase a vehicle for the business and required a loan from his local bank who manages his business account, he could apply for "leasing" for the purchase of the vehicle from the bank.

As a result of keeping the company's books in order and presenting and paying the company's taxes every three months, the application for leasing is likely to be successful. The direct benefit of this would be that the company would benefit from the reduction of the monthly IVA (VAT) receipts. Further in financial terms the company would receive a better interest rate on the leasing as most lenders' rates for loans to companies use the applicable interest rate of Euroibor plus up to 1.5%. Whereas if the owner of the business had purchased the vehicle in his own name by taking out a consumer loan the applicable interest rate is normally between 6-7%.

Once the company is incorporated any employment contracts would be with the company as opposed to the businessman. The company is obliged to register its employees with the Department of Social Security and then contract healthcare with either the State or a private health care provider.

Therefore if one of the construction workers suffered a serious accident at work and was registered with the department for social security the company would not be liable for the cost of healthcare as this would be met through the company's contract with either the Department of social security or through the private health care provider. Without the S.L. and contract with the health care provider the employer would have to meet the cost of the healthcare.



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A further benefit of having an S.L. is that if our construction company was due to sign an important contract with a real estate developer for the construction of an urbanization the developer would require that all the construction company's employees were registered with social security and to provide proof that they were. If the developer did not request this he could become responsible for the payment of the employees' social security payments as third parties can be held liable to these if the original employer does not pay these. Therefore as the business grows other businesses are likely to work closer with you if you have the S.L. status.

**If you would like to discuss any of the points raised in this article do contact us.**

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