



DE COTTA MCKENNA & SANTAFÉ English Lawyers and Spanish Abogados

Dear

RE: Changes to Spanish tax legislation

We hope you are well and trust you will appreciate this letter we are sending you notifying you of some important changes to Spanish legislation which may affect you.

A new Spanish tax law known as Law 35/2006 was approved by Spain's council of Ministers on 28 December 2006 and came into effect as of 1 January 2007.

The law modifies the tax position in respect of companies, resident and non-resident taxes and is of particular importance to non-resident owners of Spanish property.

1. Capital Gains Tax (CGT) on sales of property by non-residents is reduced from 35% to 18%. This is a substantial reduction of the potential CGT liability you would be obliged to pay if you decided to sell your property. As an example if you had purchased a property in the year 2005 for 150,000 euros and this was sold in 2007 for 225,000 euros. Then under the former provisions your CGT liability of the gross gain of 75,000 euros would have been approximately 26,250 euros whereas under the new provisions the CGT liability is reduced to approximately 13,500 euros. (If you had purchased the property earlier there will be taper relief as well)
2. A further change is that when a non-resident sells a Spanish property the buyer is obliged to retain 3% of the escritura sales price and pay this into the Spanish tax office whereas previously the amount retained was 5% of the escritura sales price. This reduces the amount retained by the buyer significantly and in the above example rather than the buyer retaining 11,250 euros they would now retain 6,750 euros.
3. Residents CGT has been increased from 15% to 18% and previously if you had purchased a property prior to May 1986 you would have been exempt from CGT but this has now been removed and you would now be taxed on the gross gain depending on the above percentages depending on whether you are a resident or non-resident. (You would receive taper relief on the gain)
4. As of 1 January 2007 NIE documents have to be shown to notaries when selling or buying Spanish property. If you have lost or misplaced your original NIE we would recommend that you apply for a duplicate.

If you wished to discuss your potential CGT liability with us prior to a sale of a Spanish property we would be happy to assist. In addition do bear in mind that when calculating the potential liability all the costs incurred in the purchase and sale such as notary, legal and land registry fees and estate agents commission can be deducted from the gross gain so long as you have the original invoices.



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We would like to remind you that if you are a non resident owner of property in Spain, Spanish law requires you to submit an annual non-resident tax declaration and pay taxes in respect of your assets in Spain. This declaration must be submitted by the end of each calendar year. We can assist you with the calculation and submission of these taxes. If you need assistance in this matter, please contact us.

We would like to take this opportunity of informing you that if you do have Spanish assets we would strongly recommend that you have a Spanish will prepared and we would be delighted to take your instructions in respect of the contents of your Spanish will and accompany you to the notary for it to be signed.

The same applies if you have English assets and our Wills & Probate Department would be pleased to assist you in preparing English wills.

Finally we are pleased to advise you that we have opened new offices in Coin & Tenerife where we are offering similar services to those provided in our Nerja and Mijas-Costa offices which include conveyancing, tax advice, wills and probate, litigation, commercial and family law.

Our continued success and expansion has been made possible by your support for which we are grateful.

If we can be of assistance please do not hesitate to contact your closest branch office.

Kind regards,

De Cotta McKenna y Santafe

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