

■ ESCURA



**INVESTMENTS AND
TRADE IN SPAIN**

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INDEX

- I. Introduction
- II. General Data
- III. Legal System
- IV. Tax System
- V. Labour Regulation
- VI. Civil Proceedings System
- VII. Accounting Legislation

“Our mission: **ESCURA** bases its activity on the social commitment and corporate responsibility”

I. INTRODUCTION

Our provision of services is based on the declaration of our **Mission, Quality and Commitments.**

Mission

“We are willing to be a multidisciplinary office, which allows us to offer our clients a comprehensive advice service, based on high ethical and quality standards.”

Quality

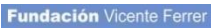
“Our professional performance is aimed at achieving full customer satisfaction, obtained through process monitoring methods, analyzing the results and adopting improvement measures.”

Commitments

“We are a committed professional office, and in this sense, we participate with different entities. We are committed to **Quality** (ISO and IQNet), **Territory** (we are the reference office of more than 15 business entities), **Culture** (we participate with cultural entities), **Solidarity** (we sponsor scholarship programs), **Training and Transparency** (we collaborate and participate with the educational community) and **Equality.**”

Areas of practice

Corporate Compliance		Finance & Accounting		Family Law	
Corporate & Commercial Contracts		Tax		Administrative Law	
International		Criminal Law		Insurance	
Mergers & Acquisitions		New Technologies & Data Protection		White Collar	
Labor and Employment		Restructuring & Insolvency		Real Estate	
Planning & Zoning		Italian Desk		Immigration	



II. GENERAL DATA

Geography:

- **Territory:** 505.990 km²
- Spain occupies most of the Iberian Peninsula and, outside of it, two important archipelagos (the Canary Islands in the Atlantic Ocean and the Balearic Islands in the Mediterranean Sea) and two cities in the north of Africa: Ceuta and Melilla.
- **Population:** 47.400.000
- **Capital:** Madrid

Political institutions:

- In Spain the form of government is a parliamentary monarchy with a hereditary monarch, the King of Spain, acting as a head of state, and a bicameral parliament, the General Courts.
- The King is the Head of the State, arbitrates and moderates the regular functioning of the institutions and assumes the highest representation of the Spanish State in the international relations.
- The General Courts are formed by the Congress of Deputies and the Senate, and in them resides the legislative power of the State.
- The executive branch is formed by a Council of Ministers headed by the President of the Government who serves as head of Government. The Government directs domestic and foreign policy, the civil and military administration and the defense of the State. It exercises executive and regulatory power.

Territorial divisions:

- Municipalities
- Provinces (formed by municipalities)
- 17 regions (formed by provinces)
- The Autonomous Communities may assume competences in certain areas

Languages:

- Official language: Spanish
- Other official languages:
 - Catalan
 - Basque
 - Valencian
 - Galician



III. LEGAL SYSTEM

Establishment in Spain by foreign company:

- Constitution of Company/Subsidiary.
- Branch Office.

Legal Forms:

- Public Limited Companies and Limited Liability Companies.
- Personal-Based Companies.

A) Public Limited Company (“Sociedad Anónima”)

Main features:

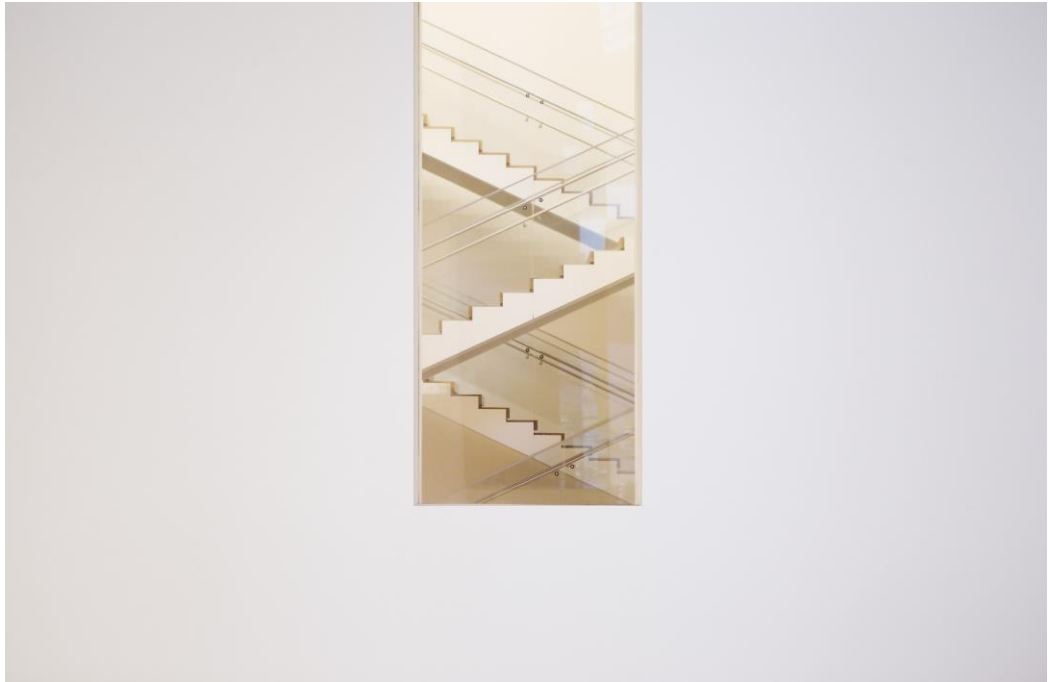
- **Minimum capital:** € 60.000. Initial outlay of at least 25%.
- **Capital divided into shares.**
- **Transfer of shares:** freedom to transfer the shares.
- **Limited liability** of shareholders to their own contribution.
- **Types of contributions:** money and assets (with a previous expert opinion).
- **Corporate bodies:** General Meeting and Administrative Board.
- **Administrative Board forms:** a sole director, two directors (solidarity or joint), a Board of Directors (Chief Executive Officers).
- **Term of office:** six years, renewable. May be revoked at any time.
- **Session without a call:** Universal General Meeting.



B) Limited Liability Companies (“Sociedad Limitada”)

Main features:

- **Minimum capital:** € 3.000. Full initial outlay.
- **Capital divided into shares.**
- **Transfer of shares:** free transmission to own spouse, ascendants and descendants relatives, partners and companies of the Group except statutory provision.
- **Limited liability** of shareholders to their own contribution.
- **Types of contributions:** money and assets (optional previous expert opinion). Solidarity responsibility of the person providing and his own successors.
- **Corporate bodies:** General Meeting and Administrative Board.
- **Administrative Board forms:** a sole director, two or more directors (solidarity or joint), a Board of Directors (Chief Executive Officers).
- **Term of office:** Indefinite except by-laws provisions. May be revoked at any time.
- **Session without a call:** Universal General Meeting.



“Legal requirements for setting up a company”

Formalities for the setting up of a company

- Certification of the Corporate name.
- Bank deposit for the social capital amount.
- Obtaining individual NIE by the partner natural person or by the director of the company.
- Public deed before a Notary.
- Obtaining provisional VAT number and communication of the Company tax base and the Spanish VAT number to the Tax Office.
- Liquidation of the Constitution tax in the Region’s Tax Office: 1% (currently exempt).
- Registration of the notarial deed in the Commercial Registry.
- Statement of Investment in the Foreign Investments General Directorate: 1 month from the notarial deed.
- Obtaining the definitive VAT number.

Formalities for the establishing of a branch office

- General Meeting Minutes and Statutes of the parent Company with a certified translation into Spain and The Hague Apostille.
- Constitution of bank deposit for the amount decided by the parent company.
- Notarial deed agreement of constitution of the branch.
- Obtaining provisional VAT number and communicate the tax base to the Tax Agency.
- Registration of the public deed in the Commercial Registry. No certification of the Corporate name request.
- Statement of Investment in the Foreign Investments General Directorate: 1 month from the notarial deed.



IV. TAX SYSTEM

Establishment in Spain by foreign company

- Subsidiary.
- Branch.

Taxation

- Subsidiary: Corporate Tax (IS).
- Branch (Permanent establishment): Income Tax Non-Resident (IRNR).

Procedure

- Obtaining provisional Tax Identification Number (VAT number).
- Payment of the Corporate Transactions (OOSS): 1% of capital (currently exempt).
- Obtaining the definitive VAT number.

Investment Statement

- Established the Subsidiary or Branch, it must be declared in the Register of Foreign Investment of the Ministry of Economy and Finance.
- It should be declared also any further investment or liquidation of the investment.
- A report of the development on investment in Subsidiary or Branch should be submitted annually.



Subsidiaries

- Corporate Tax rate:
 - General rate:
 - 25%
 - Entities of small size (turnover less than 10 million Euros):
 - 25%

- Offset taxable income: effective for periods beginning on or after 1-1-15, the tax losses can be offset within an unlimited term. (before 1-1-15 the term was 18 years). However, there's a quantitative limit with positive income tax term of 70%.³

- Tax Credits:
 - Exemption method to avoid double taxation: a 100% can be applied if the company holds a stake of at least 5% and participates for at least one year prior to the date when they are payable.
 - Deduction for activities in Research & Development and also for Technological Innovation Investments.
 - Below we detail the main percentages of the current tax credits:

% Tax Credits	
Research & Development (R&D)	25% - 42%
Technological Innovation (TI)	12%
Film production	20% - 18%
Execution expenses of foreign productions	15%
Expenses of production and exhibition of theater shows and musicals	20%
Deduction for profit investment	5% - 10%
Reinvestment of Extraordinary Profits	12%



International Conventions for the avoidance of double taxation

- Spain has subscribed bilateral Conventions with the following Countries in order to avoid double taxation.

Albania	Croatia	Israel	Portugal
Germany	Cuba	Italy	United Kingdom
Saudi Arabia	Denmark	Jamaica	Dominican Republic
Argelia	Ecuador	Japan	Romania
Argentina	United States	Kazakhstan	Russia
Armenia	Egypt	Kuwait	Senegal
Australia	El Salvador	Latvia	Serbia
Austria	Arab Emirates	Lithuania	Singapore
Barbados	Slovakia	Luxembourg	South Africa
Belgium	Slovenia	Macedonia	Sweden
Bolivia	Estonia	Malaysia	Switzerland
Bosnia Herzegovina	Philippines	Malta	Thailand
Brazil	Finland	Morocco	Trinidad and Tobago
Bulgaria	France	Mexico	Tunisia
Canada	Georgia	Moldavia	Turkey
Czech Republic	Greece	Norway	U.R.S.S.
Chile	Hungary	New Zealand	Uzbekistan
China	India	Netherlands	Uruguay
Cyprus	Indonesia	Oman	Venezuela
Colombia	Iran	Pakistan	Vietnam
Korea	Ireland	Panama	
Costa Rica	Iceland	Poland	

Branches

- Due to the wide range of different agreements, the Estates' signed text should be studied carefully.
- We detail below the most significant incomes:
 - Royalties
 - Under the OCDE Agreement Model: Exclusive taxation in the residence Estate.
 - Limited taxation in the source Estate, liable to specific requirements.
 - Interests
 - Interests coming from a contractor Estate and paid off to a resident from other contractor Estate will be liable to the sharing taxation principle, although it is allowed to renounce to the tax power and tribute for the interests' totality in the country receiving the income.
 - In the event of countries with a Double Taxation Agreement with Spain, the maximum interest rate to be taxed in the source country is 10%.



- Dividends
 - Agreements to reduce the general tax rate: usually each agreement holds different reduced rates depending on the participation.
 - In the event that a Estate receiving dividends would apply to receive the whole income in its Estate, what means, without the dividend payer making any withholding, we should ask for the residence certificate accreditation to the preceptor.
- Company Profit
 - With Permanent Establishment:
 - The tax rate for Non-Resident Income Tax for incomes through permanent establishment addresses us to the Spanish Corporate Tax, being the taxation rate 25% - 28%.
 - Whenever the Double Taxation Treaty/Agreement is applied, the deduction of interests and general expenses charged by the parent company is allowed.
 - Without Permanent Establishment:
 - It will not be taxable in Spain the company profit obtained in Spain, only in the residence Estate of the non-resident.

VAT and Local Taxes

- Value Added Tax (IVA in Spain):
 - Tax rates:
 - General: 21%.
 - Reduced: 10%.
 - Super-reduced 4%.
- Activities Tax (IAE):
 - Exemptions for:
 - The first two exercises when activity starts
 - Turnover less than € 1,000,000.
- Property tax (IBI).

V. LABOUR REGULATION

Self-employment

Single Relationship

- Self-employed workers.
- Communication to the Tax Office (Hacienda).
- Registration in the RETA (Special Regime for Self-Employed).
- Newsletter Payment Quote.
- Self-declaration of Tax: VAT, personal income tax (IRPF).

Subordinate work

Worker-employer relationship: obligations of the employer:

- Enroll workers in the Social Security (INPS).
- Employment Agreement (which sets out the conditions of employment).
- Payment (Minimum required - Minimum professional wage – Collective agreement).
- Social Security Monthly/Quarterly Payment IRPF - Public Finance.
- Social Security Monthly/Quarterly Payment.

Worker-employer relationship: employee's obligations:

- Meet and agreed to the conditions contained in the contract.
- Comply with employment legislation.



Types of contracts

- Depending on the duration:
 - Fixed term contract (set the start and end of employment).
 - For work and service
 - Eventual production circumstances
 - From interim
 - Indefinite Contract Time (permanent and indefinite).
- According to the schedule:
 - Full time Contract.
 - Part time Contract.

Termination of the employment relationship

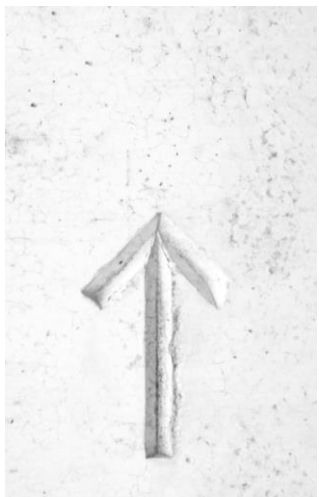
- Dismissal for objective reasons:
 - Organizational, Technical, Economic and Production.
 - Compensation 20 days / year of service, up to 12 monthly installments.
- Disciplinary Dismissal:
 - Justify and demonstrate the violation.
 - Lawful Dismissal (No compensation).
 - Unlawful Dismissal (Compensation 33 days per year worked, maximum 24 months).
 - Null dismissal (reinstate the worker).
- Withdrawal of the employee.
- Extinction by the will of the worker based on a breach of the employer (which must be determined by court and could entitle the employee a compensation 33 days per year worked, maximum 24 months).
- Agreement of the parties.

Spanish Workers Statute

Minimum legislative framework which regulates generic paid work and contractual relationship between employer and employee.

Collective agreements

Specific legislative framework which regulates the contractual relationship between employer and employee in each sector, specific activity, and acts as a minimum standard within it.



“Monitory proceedings are the fastest credit recovery only when the creditor has documents that prove his credit”

VI.CIVIL PROCEEDINGS SYSTEM: KINDS OF PROCEEDINGS

Verbal proceedings

- **Description:** this is the simplest proceedings, provided by the Spanish legal system for amounts not exceeding € 6,000. It is also the procedure in certain matters prescribed by law, such as the eviction.
- **Duration:** about 6-8 months (depending on the competent Court).
- **Appeals:** the judgment is appealable if the provided amount exceeds € 3,000.

Ordinary proceedings

- **Description:** this is the most common proceedings, provided by the Spanish legal system for amounts above € 6,000 and also to certain issues in respect of the matter.
- **Duration:** approximately 8-12 months (depending on the competent Court).
- **Appeals:** the judgment is appealable.

Negotiable instruments proceedings

- **Description:** it is the proceedings in case of unpaid cheques, bills of exchange and promissory notes.
- **Duration:** if the debtor does not present opposition and does not pay within 10 days, it is paid directly to the execution and the goods are seized. In case of opposition a verbal proceeding starts.
- **Appeals:** In case of opposition, the appeals are the same as in the verbal proceedings.

Monitory proceedings

- **Description:** it is the fastest credit recovery only when the creditor has documents that prove his credit (invoices, delivery notes, etc.).
- **Duration:** if the debtor does not object and does not pay within 20 days, it is passed directly to the execution and seizure of property. In case of opposition, the verbal procedure (if the amount is less than € 6,000) or ordinary proceedings (if the amount is more than € 6,000) start.
- **Appeals:** in case of opposition, the appeal system is the same as in the verbal or ordinary proceedings.

Enforcement proceedings

- **Description:** when the creditor has an enforceable title (e.g. a sentence), it is possible to order the seizure of property of the debtor for the recovery of the credit plus 30% for interest and legal expenses.
- **Duration:** if the debtor pays within 10 days, the proceedings is finished, otherwise the creditor can request the seizure of property: about 5-6 months.
- **Appeals:** opposition is possible only in case of formal defects and for reasons taxed by law.

Enforcement of foreign judgments

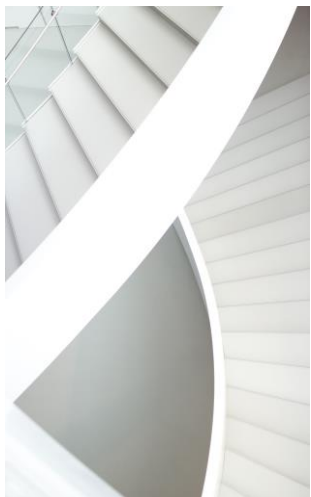
- **Description:** under the European Regulation 1215/2012, is the instrument to give enforceability to a judgment in another Member State.
- **Duration:** the proceedings are the same as in the execution.
- **Appeals:** the opposition is possible only in case of procedural defects and breach of the rules contained in Regulation 1215/2012.

Appeal proceedings

- **Description:** the proceedings which are established before the Provincial Courts, that is territorially competent, as a result of appeals against court orders in verbal or ordinary proceedings.
- **Duration:** about 6-12 months.
- **Appeals:** the judgment can be contested before the Supreme Tribunal only for a breach of procedural rules.

Supreme Court proceedings

- **Description:** this is the proceeding started before the Supreme Court as a result of the action against the Court judgments in the appeal proceedings.
- **Duration:** approximately 2 years for admission and, if it is admitted, another 2 years for resolution.
- **Appeals:** the judgment is final and therefore is not actionable.



“Basic Spanish accounting principles are contained in the General Accounting Plan”

VII.ACCOUNTING LEGISLATION

Spanish Accounting Regulations

- Basic Spanish accounting principles are contained in the General Accounting Plan (Plan General de Contabilidad “PGC”) (Royal Decree 1514/2007), modified in 2010 and 2016 (Royal Decree 602/2016, December 2nd) for applying in exercises that started on January 1st 2016. This text contains five parts:
 - Accounting framework,
 - Recognition and measurement standards,
 - Annual accounts,
 - Chart of accounts
 - and Definitions and accounting entries,of which the first three are mandatory and the last two are optative, but massively adopted.
- There are several sets of specific rules to adapt the general principles to specific types of companies or industries, like cooperative societies of non-profit organizations.
- Consolidation rules are contained in the Consolidated Financial Statements Preparation Rules (*Normas de Formulación de las Cuentas Anuales Consolidadas* or NOFCAC), that were changed in 2010 and 2016, to be in line with the standards approved in 2007 with regard to the “PGC”. All the conditions are mandatory.
- Both sets of regulations, together with their adaptations, were changed in order to be in line with the EU Fourth Directive and to be adapted to the IFRS standards in 2007.
- The accounting principles are close to IFRS but some differences still exist.
- In addition, the “ICAC” (Instituto de Contabilidad y Auditoría de Cuentas) issues clarifications and specific rules, which are mandatory.

Accounting Obligations

The main accounting related obligations for companies in Spain are:

- Keep detailed accounting records, following the mandatory sections of the PGC.
- Statutory annual accounts have to be prepared during a maximum period of three months after the closing date.
- Statutory annual accounts have to be approved at the Shareholders General Meeting during a maximum period of six months after the closing date.
- Statutory annual accounts have to be filed in the Public Register during the subsequent month of their approval.

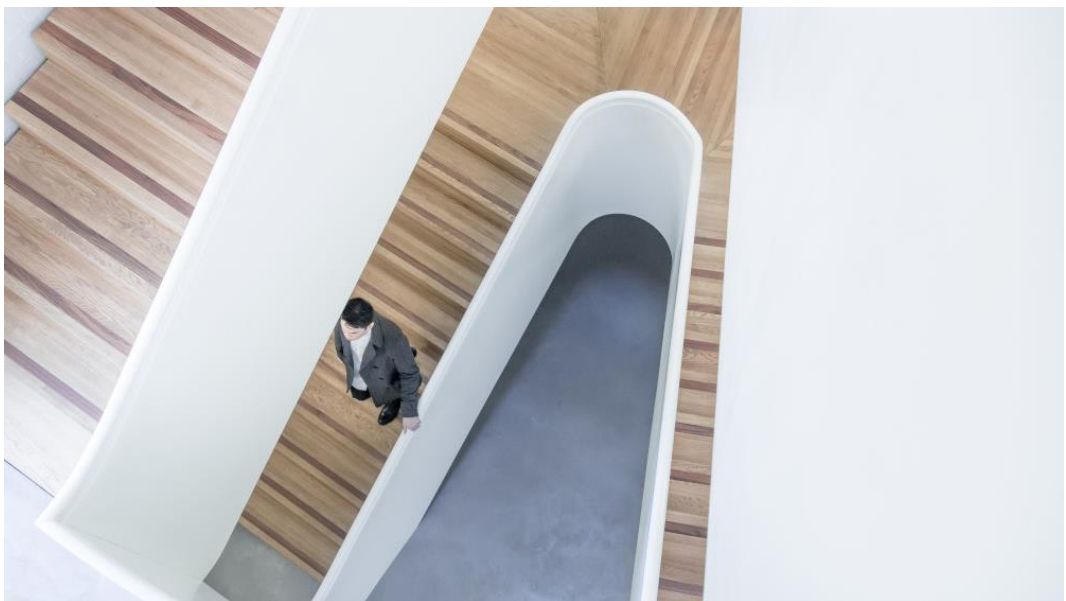
“The consolidated financial statements have to include the parent company and all its controlling interest subsidiaries”

Financial Statements

- Financial statements are the main source of financial information from a company for the different stakeholders: shareholders, banks, suppliers, etc. Based on the Spanish accounting regulations, a set of financial statements can be composed by up to six documents:
 - Balance Sheet.
 - Income statement.
 - Statement of Changes in Equity.
 - Statement of Cash-flows.
 - Notes to the financial statements: they include the necessary information to understand and support the above set of financial documents.
 - In some cases, management's report.
- The accounting regulations provide mandatory templates for each one of the financial statements, depending on the size of the company, three forms are provided, a full form and a short form for normal companies and special ones for SME.

Consolidated Financial Statements

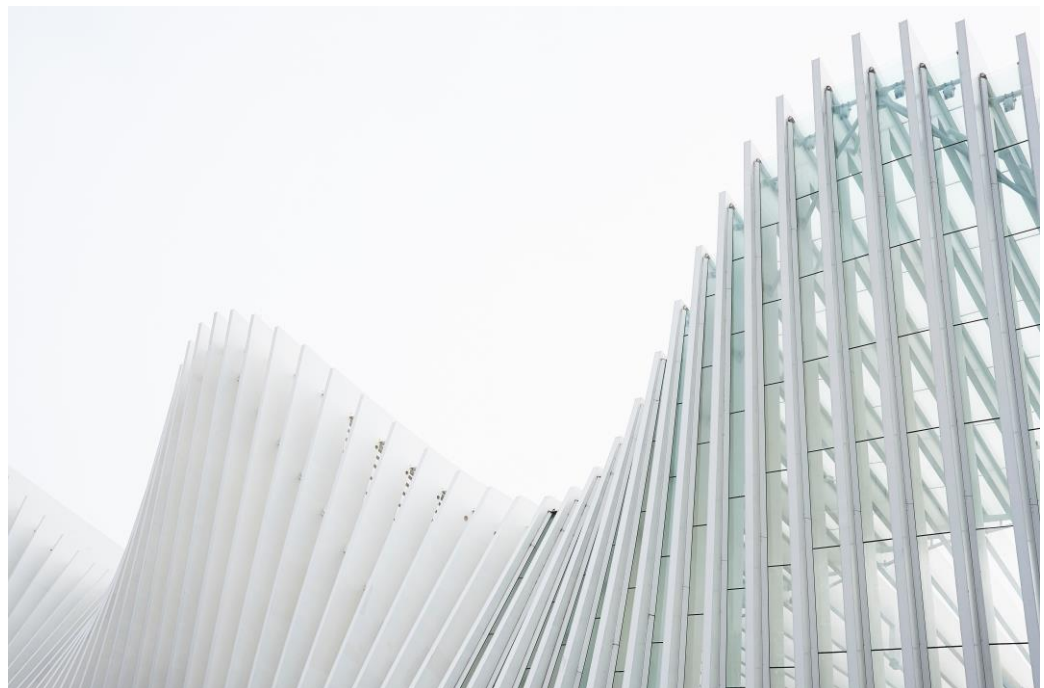
- The parent company of a group has to prepare consolidated financial statements if the parent company and all the controlled companies exceed two of the following thresholds: 250 employees, 11.4 million € of total assets or 22.8 million € of income, during two consecutive periods.
- The consolidated financial statements have to include the parent company and all its controlling interests subsidiaries, following the IFRS requirements if they are quoted in an European market.
- The consolidation regulations, as well as the regular accounting ones, provide similar forms for the preparation of the “consolidated financial statements” prepared under the Spanish Accounting Principles.



“The audit activity can only be performed in Spain by registered auditors”

Audit

- Audit regulations have been in continuous change in the past years in order to adapt them to the international ones and to the EU directives, making the transnational collaboration between Spanish and foreign auditors easier when a group has companies in different jurisdictions.
- Currently, Law 22/2015, of July 20, adopts the Spanish internal legislation to the changes incorporated by Directive 2014/56 / EU of the European Parliament and of the Council, of 16 April 2014. This Law entered into force with general character on June 17, 2016.
- In Spain, any entity that individually exceeds two of the following thresholds, 50 employees, 2.85 million € of total assets and 5.7 million € of total income, during two consecutive periods, must submit its financial statements for auditing, not only companies of all kinds, but also non-profit organizations.
- When a group of companies reaches two of the following thresholds: 250 employees, 11.4 million € of total assets or 22.8 million € of income, during two consecutive periods, its consolidation is mandatory, and the audit of the consolidated financial statements is compulsory.
- The audit activity can only be performed in Spain by registered auditors, who are accountants that have passed a specific exam. In order to practice, they must register with the *Registro Oficial de Auditores de Cuentas* (ROAC). The auditor has to be appointed by the shareholders, for a minimum of three years and a maximum of nine years. Once this first period has ended, the auditor has to be renewed yearly or in a three-year period.
- Auditors are financially responsible if they don't comply with the technical rules applicable, when under contract. There are no differences in force today between the International Standards on Auditing (ISAs) and the Spanish Auditing Standards.



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