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*News*alert

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U.S. European Tax Group

The European Tax Group ("ETG") prepared this news alert. The ETG is part of PwC International Tax Services in the US. The group includes people from PwC offices in Europe – giving it a powerful knowledge base to help solve European tax issues and optimize global tax rates. If you would like to contact a member of the ETG please contact Ingrid Macdonald at (646) 471 2718 or Gail Bartone at (646) 471 0909.

For issues relating to this news alert please contact your local international tax services advisor or the specialists listed at the end of this article.

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Proposed Corporate and Non Residents Income Tax Reform

The Spanish Ministry of Finance yesterday made public the proposed reform of the whole Spanish Income tax system, for individuals, corporations and Non residents. The key drivers of the reform in Corporate Taxation are the reduction of the tax rate to 30% and the progressive suppression of the tax credits (other than those to prevent double taxation) to disappear as from January 1st 2011.

The reform is expected to enter into force by January 1st 2007.

Corporate Income Tax

It is proposed that the corporate income tax rate, currently at 35% will be reducing by 1% per annum from January 1st, 2007 until January 1st, 2011, at which stage a rate of 30% will apply.

- Fiscal year started after January 1, 2007, the rate will be 34%,
- Fiscal year started after January 1, 2008, the rate will be 33%,
- Fiscal year started after January 1, 2009, the rate will be 32%,
- Fiscal year started after January 1, 2010, the rate will be 31%,
- Fiscal year started after January 1, 2011, the rate will be 30%.

Other special rates will be reducing accordingly:

- Oil Industry from 40% to 35%,
- Small and Medium enterprises from 35% to 30%.

The tax credits, other than those directly related to prevent double taxation, will be progressively abolished.

In particular, this will affect the credits for:

- Research and Development and Technological innovation,
- Development of the Information and Communications technology,
- Export activities,
- Investment in Cultural assets, book publishing and others,
- Environment Investments,
- Workers' education,
- Reinvestment of capital gains.

It proposed that the suppression will be effective for fiscal years starting after January 1st, 2011, whereas for the fiscal years prior to this date, progressive reductions have been scheduled.

It is anticipated the amount of the credit currently available under actual legislation will be reduced as follows:

- 80% for the fiscal year started after January 1, 2007
- 60% for the fiscal year started after January 1, 2008,
- 40% for the fiscal year started after January 1, 2009,
- 20% for the fiscal year started after January 1, 2010.

Foreign tax credits remain unchanged (both participation exemption and foreign tax credit system keep the same current requisites for its application).

The ETVE regime also remains unchanged.

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Non Residents Income Tax Law

Non residents operating through a Permanent Establishment in Spain will benefit from the Corporate Income Tax rate reduction and likewise will have to apply the progressive reduction of tax credits until the complete abolition in January 1st, 2011.

Rates applicable to non residents operating without a Permanent Establishment (unless there is a limitation under the Treaty) will be:

- general rate: 24% (so far 25% applied),
- dividends and interests: 18% (so far 15%),
- remittance tax: 18% (so far 15%),
- capital gains: 18% (so far 35%).

It is also proposed that the withholding tax on Real Estate transfers (which is refundable and applies over the sale price not the gain) will be reduced from 5% to 3%.

It should be noted that the tax reform process has just started and the final outcome may substantially vary as a consequence of the Parliamentary discussions.

For more detailed information, please do not hesitate to contact

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