

A close-up photograph of two people in business suits shaking hands. The person on the left is wearing a dark suit, white shirt, and a green patterned tie. The person on the right is wearing a dark suit and a white shirt. Their hands are clasped in a firm handshake. The background is bright and out of focus.

# VALÈNCIA

**Tax regulation**

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**VLC**  INVEST IN  
VALENCIA  
March 2022

**Attraction and retention of investments in València**

## **Doing Business Guide**

Requested by Invest in València Office

Prepared by Grant Thornton



**València, Doing Business**

**How many and what types  
of taxes do you have to pay?**



**09**



# How many and what types of taxes do you have to pay?

In Spain the tax system is characterized by the principles of justice, equality and progressivity, without reaching the confiscatory aspect. The existing regulatory framework is structured in the General Tax [Law](#) and different laws that regulate each of the taxes, which can be of a state, regional and local nature. At the same time, taxes can be (i) direct, which taxes income, or (ii) indirect, which taxes economic activity.

The most important mandatory taxes for an entrepreneur who wants to invest in Spain are the following:

## 9.1 Tax on Economic Activities (IAE)

It is a local tax to which those who carry out an economic, artistic or professional activity are subject. It is paid annually, and individuals or companies whose annual turnover does not exceed one million euros are exempt.

## 9.2 Corporate Income Tax (IS)

It is a direct tax levied on the net profit of the activity of the Companies, with certain adjustments, deductions and bonuses, and its declaration is compulsory, declared, although the company has not obtained any income nor has carried out economic activity during the fiscal year.

The payment of the tax is executed in installments over 3 terms within the tax period, which lasts 12 months.

The forms for the corresponding declarations are as follows:

- Installment payments: [form 202](#) (April, October and December).
- Annual declaration: [form 200](#) (220 for cooperatives and groups of companies).



Main types of taxation:

- General rate: 25%
- Reduced rate: 15% for start-ups (the first year with profits and the next)

# How many and what types of taxes do you have to pay?

## 9.3 Personal Income Tax (IRPF)

It is also a direct tax levied on the income of physical people. If the entrepreneur is self-employed, the income obtained must be taxed by Personal Income Tax, which taxes the income generated by his activity. The payment of the tax is also made in a fractional way:

- Quarterly statements. They are used for installment payments. With [form 130](#) (in direct estimation) and [131](#) (in objective estimation)
  - Direct estimation: 20% is paid on the difference between deductible income and expenses.
  - Objective estimation: a fixed fee is paid according to certain indices or modules.
- Annual declaration: [form model D-100](#) (under the section Income from economic and professional activities).

In addition, both self-employed people and companies must pay quarterly the withholdings for Personal Income Tax that have been applied in some of their payments to third parties (payroll, payments to professionals or for the lease of the business premises).

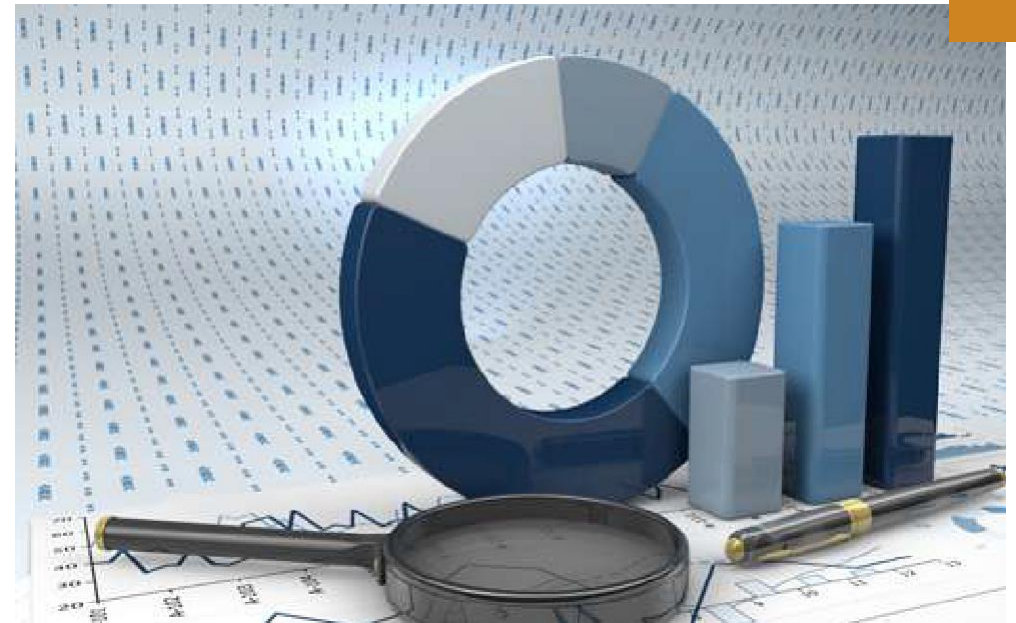
- [Form 111](#): withholdings in payrolls or in the invoices of professionals.
- [Form 115](#): withholdings in the payment of renting of immovable property.

## 9.4 Non-Resident Income Tax (IRNR)

It is a direct tax levied on the income obtained in Spanish territory by individuals and entities not resident in Spain.

The element to determine the tax regime of non-residents is having or not a permanent establishment in Spain:

- a) In case of obtaining income through a permanent establishment (management offices, branches, offices, factories, workshops, warehouses, shops or other establishments), companies will be taxed on the entire income at-



tributable to the establishment, wherever the place of acquisition of the mentioned income.

In general, in this case, the tax base is determined like the companies resident in Spain and it is taxed at 25% on the basis of their net income.

In addition, there is a complementary tax which amounts to the 19% of the amounts transferred abroad from the income obtained by permanent establishments in Spain of non-resident entities. However, this tax is generally not enforceable according to most Double Taxation Agreements (DTA).

- b) In case of obtaining income without the mediation of a permanent establishment, the company will be taxed separately for each income obtained in Spanish territory. Among the different types, we can highlight the following:

- income from economic or exploitation activities when they are located in Spanish territory,

# How many and what types of taxes do you have to pay?

- income derived from the provision of services executed in Spanish territory.
- income from work when derived directly or indirectly from a personal activity carried out in Spanish territory
- income derived from immovable property located in Spain or from rights related to such properties.

In this case, the general tax rate will be 24% on the net income obtained. The rate will be 19% for taxpayers resident in another EU or EEA Member State with which there exists an effective exchange of information agreement.

Tax forms to be submitted: [Form 210](#), [Form 216](#) and [Form 226](#).

However, it should be noted that companies without a permanent establishment in Spain that are resident in a country with which Spain has a

Double Taxation Agreement to avoid double taxation are, in general, not taxed in Spain for the business profit obtained or for the increase in assets (except for the derived from real estate).

Likewise, note that the profits distributed by a subsidiary company resident in Spain to its parent company resident in the EU or in the member states of the EEA will be exempt when certain requirements are met (mainly having a 5% stake).

Especially, it should also be highlighted that the following people can opt to pay taxes as if they were tax residents (IRPF) in Spain:

- non-resident physical people who prove their habitual residence in another EU Member State or in an EEA Member State with which there is an effective exchange of tax information agreement and who have obtained in Spain income from work and professional activities which represent at least 75% of their worldwide income,
- someone who has obtained in Spanish territory an income lower than 90% of the minimum personal and family income, that would have belonged to him if he had been a tax resident in Spain, and that the income obtained abroad would have also been lower than that the mentioned minimum.

Finally, non-resident taxpayers will be, in certain cases, obliged to appoint a representative in Spain (natural or legal person resident in Spain). Specifically, they will be:

- i. Those who operate in Spain through a permanent establishment.
- ii. Those who carry out economic exploitations without a permanent establishment that allow the deduction of certain expenses.
- iii. Those entities under the income attribution regime constituted abroad that carry out economic activities in Spanish territory, when all or part of them is developed, continuously or habitually, through workplaces of any kind, or that act in Spain through an authorized agent to contract in the name and on behalf of the entity.
- iv. Those for which this is required by the Tax Administration due to the amount and features of the income obtained.
- v. Those who are people or entities resident in countries or territories with which there are not effective exchange of information agreement and are holders of assets located Spanish territory (excluding securities).





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## 9.5 Value Added Tax (VAT)

It is an indirect tax levied on the consumption of goods and services and will be paid every time good or service is purchased. There are currently 3 types of VAT, depending on the type of product or service consumed:

- Super-reduced (4%). It is applied to medicines, books and basic necessities.
- Reduced (10%). It is applied to products for livestock, forestry or agricultural use, food, transport, medicines for animals, water or the sale of homes.
- Overall (21%). It applies to all products and services that do not fall into the above two categories.

Companies will be able to offset the input VAT to their suppliers with the VAT charged for the sale of their goods or services.

Each month or quarter, depending on the company, companies must settle in the Treasury the difference between the output VAT and the input VAT.

The declaration and payment will be made through the following forms:

- [Form 303](#). Monthly or quarterly self-assessment
- [Form 390](#). Annual summary statement.

Moreover, the following informative forms must also be submitted: 340 (accounting data that support the VAT settlement of each period), 347 (transactions carried out with third parties over 3,005 euros), and 349 (intra-Community transactions).



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## 9.6 Municipal taxes

### 9.6.1 The Tax on Economic Activities (IAE)

It is a municipal tax levied on the performance of professional, business and artistic activities.

The payment period ranges from September 1 to October 31 of each year and will be paid through the electronic banking services authorized by the City Council.

#### Exemptions.

The first two years of a company which just started an activity and when the net turnover of a company is less than 1,000,000 euros.

#### Bonuses.

The City Council of València establishes a bonus in the tax quota for those who start any business activity during the 5 years of activity following the second tax period of development of the activity.

The bonus can be requested before January 1 of the year in which it is to be applied.

### 9.6.2 Tax on constructions, installations and works (ICIO)

The payment of this tax is linked to the execution of works and must be paid prior to the submission of the prior communication to the City Council to carry out the works.

Cost: 3% of the budget for the material execution of the work.

Payment: It will be made by the self-assessment system, using the form on the website of the City of [València](#).

### 9.6.3 Tax on Real Estate of an urban nature (IBI)

It is a municipal tax levied on the ownership of a property and its amount is variable, calculated over cadastral value of the property.

The taxpayer of this tax is the owner of the property, therefore, in case of lease, the lessee will not be subject or obliged to pay it.

The payment period for the year 2022 will be from March 1 to July 11.







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