

**TEMPORARY TAX MEASURES
INTRODUCED TO REDUCE THE PUBLIC DEFICIT**

January 12, 2012

On December 30, 2011, the new government appointed following the last Spanish general election held in November 2011, passed [Royal Decree-Law 20/2011, on urgent budgetary, tax and financial measures to correct the public deficit](#) ("RDL 20/2011"), introducing tax amendments mainly aimed at reducing the budget deficit. Below is an outline of the most significant changes.

PERSONAL INCOME TAX

RDL 20/2011 approves, limited to financial years 2012 and 2013, an additional tax (increase on the tax rate) on the general tax base and on the savings tax base, resulting in a substantial increase in the taxation of all income received during these financial years.

The tax rate scale applicable to the general tax base (including salary income, business income and income from property rentals) has been increased, ranging from 0.75% and 7%. The temporary increases to the general personal income tax scale applicable countrywide are the following:

General tax base	Gross tax charge	Rest of general tax base	Rate of increase
0.00	0.00	17,707.20	0.75%
17,707.20	132.80	15,300.00	2.00%
33,007.20	438.80	20,400.00	3.00%
53,407.20	1,050.80	66,593.00	4.00%
120,000.20	3,714.52	55,000.00	5.00%
175,000.20	6,464.52	125,000.00	6.00%
300,000.20	13,964.52	thereafter	7.00%

The total tax due on the general tax base is calculated by adding the countrywide tax charge and the regional tax charge. The table below shows the resulting general tax scale, to which it has to be added the increases or reductions approved by some autonomous communities ("ACs"):

General tax Base	Gross tax charge	Rest of general tax base	Rate applicable percentage
0.00	0.00	17,707.20	24.75%
17,707.20	4,382.53	15,300.00	30.00%
33,007.20	8,972.53	20,400.00	40.00%
53,407.20	17,132.53	66,593.00	47.00%
120,000.20	48,431.24	55,000.00	49.00%
175,000.20	75,381.24	125,000.00	51.00%
300,000.20	139,131.24	thereafter	52.00%

Application of the increases or reductions approved by ACs mean that, in certain ACs, the maximum marginal rate on incomes exceeding 300,000.20 euros reaches 56% (in Catalonia), while in other ACs the maximum marginal rate is reduced to 51.90% (the Madrid region).

Savings are likewise affected by the additional tax on the savings tax base (this base includes interest, dividends and income obtained from the transfer of assets).

Tax base of savings	Gross tax charge	Rest of general tax base	Rate of increase
0.00	0.00	6.000.00	2.00%
6,000.00	120.00	18,000.00	4.00%
24,000.00	840.00	Thereafter	6.00%

Regarding the savings tax base, ACs have no competence to alter the tax rates, so the resulting tax scale is as follows:

Tax base of savings	Gross tax charge	Rest of general tax base	Rate applicable percentage
0.00	0.00	6,000.00	21.00%
6,000.00	1,260.00	18,000.00	25.00%
24,000.00	5,760.00	thereafter	27.00%

This additional tax entails a corresponding increase of the withholdings on account of the final tax applicable to the various kinds of income.

For instance, the withholding rate applicable to the remuneration paid to directors and board members is increased from 35% to 42%.

Other relevant changes

The homebuyer tax credit was reinstated with effects from January 1, 2011, for all taxpayers irrespective of their income level.

Other measures continued into 2012, are those excluding computers and computer equipment given to workers as employment income, as well as the application of the 20% reduction on the net income from economic activities provided that the condition of job maintenance or creation is met.

CORPORATE INCOME TAX

The corporate income tax rate remains unchanged, although there is an increase from 19% to 21% in the withholding on account of the final tax due on certain types of income.

For SMEs, the reduced rate of 20% also remains unchanged into 2012 provided they meet the condition of job maintenance or creation.

There is also an extension of the tax deduction applicable to expenses and investments for training employees in the use of information technologies for financial year 2012.

NON-RESIDENT INCOME TAX

With effects from January 1, 2012 to December 31, 2013, the tax rate applicable to the income obtained by non-resident taxpayers without a permanent establishment is increased from 24% to 24.75%.

Similarly, and over the same period, the tax rate applicable to dividends, branch profits, interest payments and capital gains obtained from the transfer of assets is increased from 19% to 21%.

VALUED ADDED TAX

Regarding VAT, the application of the reduced tax rate of 4% on transfers of new housing is extended until December 31, 2012.

OTHER CHANGES

The property tax rate is also increased between 4% and 10%. The increase will depend on the date of approval of the last property valuation applicable in the municipality. This tax applies to the ownership of rural and urban real estate and to certain buildings having special characteristics.

WEALTH TAX

Finally, under Royal Decree-Law 13/2011, of September 16, the wealth tax was temporarily reinstated for 2011 and 2012. Wealth tax applies to the worldwide net wealth of Spanish resident individuals. For non-resident individuals, the tax is levied exclusively on assets or rights located in, or which can be exercised in, Spanish territory. In both cases, the tax rates range between 0.2% and 2.5%.

However, an exempt minimum of 700,000 euros has been established, such that the tax will be levied only on the value of assets exceeding that amount. In addition, some ACs (Region of Madrid, Region of Valencia and Balearic Islands) have used their regulatory powers to eliminate this tax, while other ACs have increased the tax burden (e.g., Andalusia).

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