

## Spanish tax guide: tax it like Beckham

Tax expert Pedro da Cruz explains how expats should handle a Spanish tax bill in order to get the same advantageous tax rates as David Beckham.

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Tax is an issue most of us would rather not have to deal with, and for those who do need to, will usually delegate to their accountant or other expert. However, understanding a few of the basics of tax, especially if you have to deal with multiple jurisdictions, could go a long way to saving you money each year.

No one wants to pay more tax than they need to, particularly when there is little to suggest that the tax paid will ever serve any personal benefit, given the fact that the tax authorities are preoccupied with writing off government deficits. Traditionally, the practice has been to place money offshore as a solution. However, with the Treasury desperate for extra cash in the wake of the economic downturn, increasing attention has turned to tax havens, where it is felt that a lot of untaxed earnings have been hidden away. Serious thought should therefore be given on where to place your money so that it is tax-efficient.



David Beckham is just one of many expats in Spain taking advantage of a special expat tax rate. Photo: Giuliano Bevilacqua/Rex Features

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### Income tax on expats in Spain

In Spain, expats can opt for a special expat tax scheme, dubbed the "Beckham rule", where a flat rate of 24 per cent tax is paid on Spanish-sourced income. The law earned its nickname when football player David Beckham became one of the first foreigners to take advantage of it after it was passed in 2005. Certain conditions are placed on those who opt for this, including a maximum validity period of five years for the claim and a maximum earning of 600,000 euros per annum. The flat tax rate contrasts with that of ordinary residents, which is on a progressive scale between 15 per cent and 43 per cent.

A more complex situation arises where you are tax resident in another jurisdiction and work in Spain for part of the tax year. In such circumstances, you should consult with a tax lawyer or expert as soon as possible. This will ensure that you are not paying too much tax from the outset and that you don't end up being taxed twice on the same income, subject to the treaties on double taxation.

If you fail to opt for the expat scheme in the first six months on arrival to Spain, you will automatically be deemed tax resident in Spain and will be subject to the progressive tax rate. Tax residents benefit from certain tax breaks if they have children, are married, and in some cases, on the rent paid for a residential property. These tax breaks are not granted to those under the expatriate scheme. Nevertheless, if you are a higher earner, you may find that use of the corporate structure is a good way to plan your tax affairs while still remaining ordinarily resident in Spain.

### The corporate structure

Setting up of a limited liability company (*sociedad limitada*) can be a good way to structure your tax obligations in Spain. This can be of particular use in reducing the amount of tax paid on your personal income in Spain.

Before doing this it is strongly advised that you consult legal and accounting professionals so as to be entirely clear on the obligations and formalities that must be complied with.

### Offshore finance

If you have business interests in several jurisdictions, you may have invested some of the money offshore. While getting the money into an offshore country may be straightforward, you could find yourself hit with a tax of 52 per cent when you try to bring the money onshore.

Under the expat scheme, tax is payable solely on your Spanish-sourced income, and not on your worldwide income. With the exclusion of tax havens, the expat scheme is a useful tool in structuring your tax liability if you have business interests in other jurisdictions, as the earnings will not attract tax in Spain, providing that tax is charged in the jurisdiction where the earnings are made.

#### Before leaving the UK

To most, the idea of leaving the country simply means deciding on a destination, buying a one-way ticket and packing your suitcase. However, overlooking tax formalities could leave you with unnecessary complications.

If you are planning on leaving the UK, you should fill in Form P85 which can be downloaded from the HMRC website (<http://www.hmrc.gov.uk/index.html>) (<http://www.hmrc.gov.uk/index.htm>) Of course holidaymakers have no need for it, but if you plan on spending at least 183 days outside the UK then you should complete the form, and will be considered as non-resident.

#### On arrival in Spain

On arrival in Spain, the first thing you will need to obtain is a NIE number. This is a certificate that is issued at any local police station and will identify you in Spain. Once you have done this, you should go to the social security office also to obtain a social security number. Finally, you should register with the tax office using Form 030. This will mean you are known to all the key authorities in Spain and ready to get on with business.

#### No taxation without representation

Lastly, I should mention that I am a great believer in the maxim no taxation without representation. However, I believe this should be extended to include not only representation through the legislature, but also legal representation. If you are a taxpayer, you should have a legal or tax expert who is able to explain why it is that you are paying the tax that you pay as well as ensuring that the filing is done correctly. After all, why pay more than you have to?

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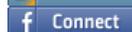
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