

Viva Espana

There are over one million properties in Spain owned by Brits, making it the most popular destination for UK residents acquiring foreign property. As investors in the current economic climate look out for any bargains to be had overseas this number may increase.

In most overseas jurisdictions there are taxes similar to those in the UK and Spain is no exception; however there are also extra taxes in Spain that have no equivalent in the UK. So once you have found your ideal property what next?

As soon as a UK resident buys property in Spain they acquire a Spanish Tax Identification Number. This is part of the buying process so it cannot be avoided. At the outset the officially declared value of the property for tax purposes is established (Valor Catastral).

Current taxes in Spain include the following:

- Purchase tax – on purchase of a new property, 7% VAT is due and 6% property transfer tax is due on other purchases. All purchases are subject to a document fee of half a percent (a bit like our stamp duty).
- Imputed income tax - an annual income tax charge at 24% is calculated based on 2% of the Valor Catastral.
- Municipal real estate tax – this is similar to council tax and is charged locally.
- Income tax on rentals - Income tax at 24% is charged on gross rents with no deduction for expenses therefore it is best to try and reduce the rent charge and get tenants to pay as many costs as possible directly. If the rental is holiday letting income then VAT at 16% must be charged on the income and whilst maintenance costs are allowable for income tax purposes, mortgage interest is not.
- Capital gains – capital gains (after a complex calculation) are charged to income tax at 18%.
- Plus Valia tax – this is a tax on the increase in value of land during the period of ownership.
- Inheritance tax – inheritance tax applies to both lifetime and death transfers and you may also need to consider a Spanish will.

There are many taxes and many pitfalls!! So seek proper advice from a specialist both in the UK and in Spain locally.

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