

# Doing Business in Spain



**KRESTON  
IBERAUDIT**  
knowing you

## **A LEADING COUNTRY TO INVEST IN**



## **Spain, a country to invest in.**

Spain has a modern economy based on knowledge, in which services represent over 70% of business activity. It is an international center for innovation that benefits from a young and highly qualified population of a proactive nature, and competitive costs in the context of Western Europe, especially as regards graduate and post-graduate employees

The country has worked hard to equip itself with state-of-the-art infrastructures capable of fostering the future growth of the economy. And this has been done alongside a major commitment to R&D, which is reflected in very favourable tax regimes for this type of investor.

There are interesting business opportunities for foreign investors in Spain in strategic and high value-added fields such as ICT, renewable energies, biotechnology, the environment, aerospace and the automotive sector, due to the attractive competitive environment.

In addition, Spain, with its good climate, is a world-renowned brand for its tourism and real estate investment possibilities. But it also has an agri-food sector that is a mainstay of the European economy.

Spain has an important logistical network of trains, seaports, airports, free trade zones and roads connected by land with Europe and, due to its geographical location, with the whole world. Furthermore, companies that set up business in Spain can gain access not only to the Spanish national market, an attractively large market (over 48 million consumers) with a high purchasing power, but also to the markets of the EMEA region (Europe, Middle East and North Africa), and Latin America, given its privileged geostrategic position, prestige and the strong presence of Spanish companies in these regions.

As a member of the European Union, investment in Spain means the possibility of operating freely throughout the territory of the customs union, with freedom of movement of people and capital as well as freedom of establishment.

The Spanish legal system is a system of guarantees, presided over by legal certainty and regulation known as civil law, which is manifested in the separation of powers that guarantees, in any case, freedom of enterprise as a constitutional right.

# Setting up your Business in Spain

## Issues to consider.

Spain is one of the most attractive destinations for foreign investment, offering access to the market of the EMEA region and Latin America. According to the OECD FDI Regulatory Restrictiveness Index, Spain ranks 11th most open country to international investment. The highly qualified population, together with state-of-the-art infrastructure, make Spain well placed for the future growth of economy, especially as an international center for innovation.

However, there are a number of issues which you must consider when you are looking to set up your business in Spain.

At Kreston Iberaudit, we have a team of qualified and committed professionals who will accompany and advise you at all times.

We can advise and help you in different areas such as:

-  Administrative services
-  Accounting outsourcing
-  Audit services
-  Consolidation
-  Controlling & Reporting
-  Due Diligence
-  Financial consulting
-  Holding Companies regime or Specific locations
-  HR/ Payroll outsourcing
-  M&A & Transactions services

-  Legal advice & law firm (labour, commercial, tax law, civil, litigation)
-  Transfer pricing
-  Tax consulting
-  Tax Regime for expatriate personnel employees,
-  ...

This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

## **What type of Business Structure should we use?**

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

### **Establishment** (a branch of your overseas business):

-  Not a separate legal entity but an extension of the overseas parent company  
No limited liability or ring-fencing of the Spanish operations.
-  If have a permanent establishment in Spain, then profits from this PE are liable to Spanish Corporation tax.
-  Must file parent company accounts, prepared under Spanish Company Law, at Companies House for public inspection, even if these are not made publicly available overseas.

### Limited Company:

-  Provides limited liability and ring-fencing to Spanish operations.
-  Gives a perception of a local business, with longevity.
-  Corporation tax to be paid on company profits.
-  Companies, must have their annual financial statements audited when two of the below conditions are met for two consecutive years:

	2025
Company Turnover, exceed.	5,700,000.00€
Company Balance Sheet total assets, exceed.	2,850,000.00€
Company average number of employees, exceed.	50

The above-mentioned thresholds for company turnover and total assets are expected to increase by 25% as from 2026. This would result in the following thresholds:

- Company turnover threshold (2026): EUR 7,125,000.00€
- Total assets threshold (2026): EUR 3,565,000.00€

At present, the draft law providing for these changes is still subject to parliamentary debate and approval.

### Civil Law Partnership ("Sociedad Civil")

-  Members (partners) have personal ,unlimited and joint liability.
-  Profits are allocated to members who then pay Income Tax on these profits personally.
-  The tax residence of the member, and where the profits in the SC were originated will determine in what jurisdiction and how these profits are taxed.

## How much Corporation Tax will the business pay?

### CIT rates:

Current General Corporation Tax rate in Spain is: 25%.

Notwithstanding the above for financial years starting from 1<sup>st</sup> of January 2025, it was approved a progressive reduction of CIT rates applicable to Microenterprise-ME (Net turnover under 1 million Euros) and Small Size Entities-SSE (Net turnover under 10 million Euros) which is indicated in the following scale:

Type of entity	Taxable Base	Tax Rates				
		2025	2026	2027	2028	2029
ME	<50,000.00€	21%	19%	17%	17%	17%
ME	>50,000.10€	22%	21%	20%	20%	20%
SSE	-	24%	23%	22%	21%	20%
Rest of entities	-	25%	25%	25%	25%	25%

Moreover, a lower tax rate of 15% is applicable for newly-formed companies, which applies in the first tax period in which the company generates profits and in the following one.

### **Payment of Corporate Income Tax (CIT):**

The CIT return must be filed within 6 months and 25 days after end of accounting period.

Payment by instalments of CIT are due in April, October and December. As a general rule, each instalment is calculated as 18% of the previous year's company tax liability.

A separate method of calculation, based on the result of the current year, applies compulsory to large companies whose turnover in the previous year exceeds a set limit (6 million Euros) and voluntary

for companies under this limit. In such case the rate applicable to the result of the current year to determine the payment on account would correspond to the following detail:

Type of entity	Net turnover		Payment on Account Art. 40.3			
			2026	2027	2028	2029
ME	<1,000,000€	5/7*CIT rate	13/15%	12/14%	12/14%	12/14%
SSE	>1M€ <10M€	5/7*CIT rate	16%	15%	15%	14%
Rest of entities	>10,000,000€	19/20*CIT rate	24% (*)	24% (*)	24% (*)	24% (*)

**(\*) Applicable in addition minimum payment rule equivalent to 23% over profit of the period.**

### **Calculation of taxable income:**

The starting point is net profit per accounts, calculated in accordance with the Spanish General Accounting Plan. However, the accounting result must be adjusted by applying the tax principles established in the legislation of the CIT. In general, the expenses relating to business activity are deductible if they are properly accounted for and justified, and if the timing of recognition rules have been fulfilled.

There is no distinction between long- and short-term gains.

**Tax losses:** can be carried forward indefinitely. However, there are specific quantitative limitations for the offsetting of these tax losses:



Companies whose turnover of the previous year was under 20Eur Million: Tax losses may be offset up to 70% of the positive tax base prior to offset, although offset is permitted up to 1 million Euros in any event.



Companies whose turnover of the previous year was between 20Eur Million and 60Eur

Million: Tax losses may be offset up to 50% of the positive tax base prior to offset, although offset is permitted up to 1 million Euros in any event.



Companies whose turnover of the previous year was above 60Eur Million: Tax losses may be offset up to 25% of the positive tax base prior to offset, although offset is permitted up to 1 million Euros in any event.

**Financial expenses:**

Thin - capitalization rules are not applicable. Nevertheless, interests derived from participative loans are considered non-deductible. Moreover, interest payments are deductible with the limit of 30% of the Operating Profits when interest amount exceeds 1 million Euros.

Financial expenses arising from the financing used for the acquisition of shareholdings are subject to special rules to determine the amount that would be deductible.

**Disallowable expenses:**

Penalties and fines. Corporation tax payments. Gifts and donations (special rules applicable for Non-Profit recognized entities).

**Incentive for Business Capitalization**

The **Capitalization Reserve Incentive** allows companies to reduce their taxable income by applying a deduction based on the increase in their equity (EI):

Reduction of the taxable base applicable	Requirement of Increase in the average workforce
20%*EI	NA
23%*EI	>2% and <5%
26.5%*EI	>5% and <10%
30%*EI	>10%

The limit of the reduction for the capitalization reserve in the Corporate Income Tax is **20% of the taxable base** prior to the application of the capitalization reserve itself, but **after offsetting tax losses from previous years (for ME the limit is 25%).**

#### **Group Regime:**

A consolidated tax return may be filed if an election is made before start of tax year. Resident companies with a common resident or non-resident Ultimate Holding Company were included in the same tax group. There must be a 75% direct or indirect ownership for whole of both the current and prior tax year.

#### **R+D Tax credits:**

This tax credits may be available at a rate of 25% (in certain cases 42%) of the R+D expenses and investments incurred in the tax period. The activity must be carried out in Spain or EU economic area. Additional tax credits can apply in some circumstances and advice should be obtained.

It is recognized a tax credit for 12% of the expenses incurred in the tax period on Technological Innovation (T.I).

Mentioned R+D and T.I Tax Credits are limited to 25% of the gross tax payable (the limit will be raised to 50% when R+D and T.I expenditure and investment in the tax period exceed 10% of the gross taxpayable). However, any excess can be carried forward for use in the following 18 years.

In case of insufficient tax payable, before applying the afore mentioned R+D and T.I tax credits, it is established the possibility to request the refund of the tax credits from the tax authorities through the tax return in cash. In order to apply mentioned mechanism, specific requirements must be met, and advice should be obtained.

### **What if we use Spain to set up our holding company?**

The Spanish tax legislation means that it is a very attractive place to set up a holding company.

Main Tax Benefits of Spanish Holding Company are:

- 
 95% exemption for dividends and capital gains realized on the disposal of shares (participation of at least 5% and minimum 10% of Corporate Tax applicable to the subsidiary-\*);
- 
 Absence of withholding tax on distribution of non-Spanish source dividends exempted (ETVEs companies) and dividends distribution to EEE Parent companies;
- 
 Full deductibility of interest payments (fulfilling certain requirements );
- 
 No capital duty on the issue of share capital and on share-for-share contributions;
- 
 95% Exemption of overseas branch income (provided similar tax paid abroad and minimum 10% tax rate);

According to the above explained the effective tax rate applicable in 2026 to dividends distribution or capital gains derived from “qualified investments” (\*) would be the following:

	SSE	REST (TURNOVER > 10M€)
Tax rate	23%	25%
Effective taxation on CIT	1.15%	1.25%

## **What if we make cross-border transactions between group companies?**

Spain follows internationally recognised Transfer Pricing (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm’s length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

The Spanish transfer pricing legislation is based on the OECD transfer pricing guidelines and the work

of the European Union Joint Transfer Pricing Forum. Although pan-European comparable should be acceptable, in practice the Spanish tax authorities have expressed a strong preference for the use of local comparable whenever possible.

Management fees are deductible if they're at arm's length, and the service yields or may yield a profit to the company receiving the services. This benefit must be proved and documented, together with the substance and reality of the services.

Taxpayers must provide information regarding related party transactions in a specific informativetax return.

Taxpayers should update their transfer pricing documentation on a yearly basis, including all relevant changes in the conditions of their commercial and financial relations in light of the pertinent documentation requirements.

Deadline to submit documentation: The tax authorities may request documentation at any timeafter the taxpayer files the annual corporate income tax return.

**From a strategic perspective, it is preferable to prepare documentation in Spanish. If the documentation is needed as evidence (especially in court), it should be translated into Spanish by a certified translator.**

Typical transactions between affiliated entities that are covered by TP regulations are:

-  Sale and purchase of goods.
-  Provision of management services.
-  Property rental charges.
-  Transfer of intangible assets i.e. trademarks, patents.



Sharing of knowledge, expertise, business contacts etc.



Provision of financial support i.e. inter-group loans and charging a “market” interest on loans.

A business will need to prepare a Transfer Pricing Report proving the arm’s length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm’s length basis.

The above explained Transfer Pricing Report will not be compulsory in the following circumstances:



entities that belong to the same Spanish Tax Consolidated group for the operations performed within the Spanish group.



intra-group transactions realized with the same related party with a total volume of less than 250,000.00€. This threshold does not apply for transactions involving intangible assets, transfers of real state, transfers of shares, and entities located in tax havens.

Small-size entities can apply abridged Transfer Pricing Documentation regime.

A taxpayer may conclude an advance pricing agreement (APA) with the tax authorities that entitles the company to use its proposed method of valuing transactions for four fiscal years.

However, even if an entity is exempt from the Spanish transfer pricing regime it may fall under the scrutiny of the other international tax jurisdictions where it transacts. There may also be other tax regulations which ensure transactions are undertaken at a commercial value.

## **What Employment Taxes and Social Security will need to be paid?**

If an individual is resident in Spain, then they are subject to Spanish tax laws.

Taxpayers considered resident in Spain are liable for Spanish tax on their worldwide income.

An individual is considered resident in Spain for tax purposes if:

1. such individual is present in Spain for more than 183 days in calendar year; or,
2. Spain is the taxpayer's main center or business base or the place where his professional activities or economic interests are located, either directly or indirectly; or,
3. the taxpayer's spouse and dependent children habitually reside in Spain.

We would advise any new entrant to Spain or person who spends time working in Spain to take professional advice to determine whether they are Spanish tax resident.

Current Personal Income Tax rates in Spain are:

#### State tax

From (Euros)	To (Euros)	State tax %
0	12,450.00	9.50%
12,450.00	13,362.00	12.00%
13,362.00	19,004.00	12.00%
19,004.00	20,200.00	12.00%
20,200.00	35,200.00	15.00%
35,200.00	35,425.00	18.50%
35,425.00	57,320.00	18.50%
57,320.00	60,000,00	18.50%
60,000.00	300,000.00	22.50%
300,000.00	from now on	24.50%

#### Regional tax, example rates applicable in Madrid

From (Euros)	To (Euros)	Regional tax %
0	13,362.22	8.50%
13,362.22	19,004.63	10.70%
19,004.63	35,425.68	12.80%
35,425.68	57,320.40	17.40%

57,320.40	60,000.00	20.50%
60,000.00	300,000.00	20.50%
300,000.00	from now on	20.50%

(NB: rates are for the tax year started in January 2026. Regional tax rates vary between the different regions of Spain (Comunidades Autónomas). The above rates are valid for the region of Madrid. **In the rest of the regions the rates for the top tax bands are higher, rising to 54% (regional + state tax) for the very top band (C. Valenciana).**

## Capital Gains Tax Rates

### Residents

From (Euros)	To (Euros)	State tax %
0	6,000.00	19.00%
6,000.00	50,000.00	21.00%
50,000.00	200,000.00	23.00%
200,000.00	300,000.00	27.00%
300,000.00	from now on	30.00%

### Non-residents

	State tax %
Residents in the EU/EEE	19.00%
Other taxpayers	24.00%

The personal income tax legislation contains a regime that is very attractive for expatriated staff of multinational companies. An individual who is assigned to work and live in Spain may opt to be taxed as a non-resident for the year of arrival and following five years of the assignment. Under such an agreement, the individual is taxed at a flat rate of 24 % on the gross amount of the labor income up to 600.000 Eur, being the excess subject to a 47% rate. To qualify for the benefits of the mentioned non-resident taxation regime, the individual must not have been a tax resident in Spain for the previous 5 years. This regime may also be available to professionals, entrepreneurs and investors moving to Spain, subject to meeting certain requirements.

In addition, workers and employers are obliged to pay taxes to the Social Security Administration to finance the benefits and health care of the individuals covered by the system. Current Social Security tax rates are:

Percentage of gross pay check			
Reason for contribution	Employer	Employee	Total
Standard	23.60%	4.70%	28.30%
Unemployment(*)	5.50%	1.55%	7.05%
Other(**)	0.80%	0.10%	0.90%
MEI(***)	0.75%	0.15%	0.90%

*\*These percentages may be slightly different depending on the type of contract.*

*\*\*Contributions to cover salary guarantees in case of bankruptcy, financing of employee training and an extra contribution to cover employee accident benefits, which depends on the employer's activity.*

*NB: (rates are for the tax year started in January 2025).*

*\*\*\*Additional contribution for the sustainability of the national pension system.*

Whereas the amount paid by the employee is included in the gross paycheck; the employer contribution is not. So, the employer can calculate the basic total cost of an employee as the gross paycheck 30.65% (assuming a simple pay slip where the base amount for social security is equal to the gross paycheck).

Finally, employers must withhold from the gross pay the employee's taxes and deposit them in the public treasury.

On the one hand, the employees' social security contributions are paid monthly to Social Security authorities. On the other hand, personal income tax contributions are paid every three months to Tax authorities or monthly (case of Large Enterprise with net income higher than 6 million Euros).

In terms of International Social Security legislation application, EU member countries, EEUU and other states have agreements on reciprocity of benefits, whereby social security taxes continue being paid in the country of origin in the event of posting of workers. In these cases, a specific analysis is necessary.

## What is Value Added Tax (VAT) and should the business be registered?

VAT is a “goods and services tax” on supplies made, the standard rate of which is 21%.

Find below a brief detail of the common Vat rates:

VAT Type	Rate	Examples of applicable products/services
<b>General</b>	21%	Goods and services not included in the reduced or super-reduced rates, such as clothing, appliances, vehicles, technology, tobacco, alcohol, telecommunications services, among others.
<b>Reduced</b>	10%	General food products, hospitality, passenger transport, medical products for general use, water, cultural events, home renovation works.
<b>Super-Reduced</b>	4% and 5%	Essential goods such as bread, milk, eggs, fruits and vegetables, human-use medicines, books, newspapers and non-advertising magazines, prostheses and wheelchairs for disabled people, social housing.
<b>VAT Exempt</b>	0%	Medical and healthcare services, education, insurance, financial operations, residential rental (non-touristic).

If a business makes taxable supplies, then it **MUST** be registered for VAT.

There are three types of supply:

-  Taxable – must charge VAT on supplies, can reclaim input VAT
-  Exempt – cannot charge VAT nor reclaim input VAT
-  Outside the scope – not in the Spanish VAT system

The supply of most types of goods and services in Spain would be classed as Taxable supplies.

However, where such supplies are made to customers established outside Spain, advice should be sought to determine whether they are located within the Spanish VAT territory and, if so, which VAT rate, if any, should apply.

Subject to the fulfilment of certain conditions and requirements, where a Spanish entity sells goods or provides services to EU or non-EU customers, no Spanish VAT is chargeable on such cross-border supplies. However, provided that, under Spanish VAT rules, those supplies would be taxable if carried out in Spain, the Spanish entity shall be entitled to fully recover the input VAT incurred in connection with such supplies.

Vat taxable entrepreneurs are obliged to submit quarterly VAT returns if annual turnover is less than € 6,010,121.04 or monthly statements if annual turnover is higher than € 6,010,121.04. The presentation of the declaration must be obligatorily by electronic means, for which a digital certificate is required.

Since 1<sup>st</sup> of July 2017, it has entered in force a new reporting obligation (SII) for companies whose turnover is higher than € 6,010,121.04. These companies are obliged to provide VAT books corresponding to issued and received invoices, electronically through electronic office of the Spanish Tax Authorities. The deadline for the submission of the information is 4 calendar days since the date of the issuance for invoices issued and 4 calendar days since the date of the registration for invoices received.

## **Can we provide Share option plans to our staff?**

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Spain has a number of “approved” share option plans which give tax benefits to employees and employers alike and it is often possible to adapt an overseas stock option plan to fit into one of these

“approved” plans.

However, this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Spain.

## **How else can we compensate our employees?**

Spain has a very comprehensive range of compensation and fringe benefit options available for companies to offer their employees.

Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many Spanish businesses to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to “spend” their benefits allowance; which can range from “purchasing” additional holiday entitlement to obtaining full family medical cover.

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