



Summary

Royal Decree 20/2011, dated 30th December, of urgent measures in budget, tax and financial matters, in order to reduce public deficit.

Royal Decree 20/2011, dated 30th December, of urgent measures in budget, tax and financial matters, in order to reduce public deficit.

On 31st December 2011 it were published in the Official Gazette the extraordinary and temporary measures adopted by the Ministers Council in order to reduce public deficit.

The measures adopted can be divided into saving measures and income measures. Saving measures have a political nature, so we will summarize the most relevant ones in order to increase the public collection, which include:

Social contributions

The maximum base amount applicable in the different Social Security regimes will be increased by 1% in addition to those applicable during 2011.

The contribution basis for self employed employees that on 1st January 2012 are younger than 47 years old, and with a base amount during 2011 equal or higher than 1,682.70 € per month, may be chosen by them within the limits of the maximum and minimum bases.

Tax on Real State (IBI)

For years 2012 and 2013, the tax rate applicable to real state will be increased according to the following percentages:

- 10% in councils that have carried out a valuation update before year 2002, with a minimum of 0.5% in 2012 and 0.6% in 2013.
- 6% in councils that have carried out a valuation update between 2002 and 2004, with a minimum rate of 0.5%.
- 4% in councils that have carried out a valuation update between 2008 and 2011.

It will not be applicable to councils that reviewed their values between 2005 and 2007.



The increase agreed for councils valuated after 2002 will only be applicable if such valuation is above the average of the corresponding council.

Personal Income Tax

During years 2012 and 2013, the rate applicable will be increased between 0.75% for the lower income and 7% for income higher than 300,000€.

The resulting scale will be increased as follows:

Base	Rate
0	12,75%
17.707,20	16%
33.007,20	21,5%
53.407,20	25,5%
120.000,20	27,5%
175.000,20	29,5%
300.000,20	30,5%

Likewise, the saving base will suffer an increase as follows:

Base	Rate
0	11,5%
6.000	14,5%
24.000	16,5%

Additionally, the retention on income derived from work will be also increased as follows:

Base	Rate
0	0,75%
17.707,20	2%
33.007,20	3%
53.407,20	4%
120.000,20	5%
175.000,20	6%
300.000,20	7%

Such retentions will be increased in relation to income obtained in February 2012. However, in such month shall be regularized those retentions corresponding to January.



Retentions in 2012 and 2013 will be increased from 19% to 21% in relation to:

- Earnings derived from the transfer or reimbursement of shares or participations in collective Investment Institutions.
- Earnings derived from forest exploitation in public locations.
- Prizes received from games, contests, raffles, or random combinations.
- Earnings derived from lease or sublease of real estate in urban land, despite its development category.
- Earnings derived from intellectual property, industrial property, or derived from technical advice, lease of assets, business or mines, and the sublease of the abovementioned, despite their development category.

The highest increase in retentions will affect the work income received as directors and board members in companies, committees and other representative members, that will raise from 35% to 42%. This increase will only be applicable during 2012 and 2013.

As off 1st January 2011, it will be admitted the deduction for investment in regular residence, so contributors will be allowed to deduct 7.5% of the amounts paid during such period for the acquisition or rehabilitation of their residence.

The maximum base for this reduction will be 9,040 € per year and will include the amounts paid for the acquisition or rehabilitation of the residence, the cost incurred by purchaser, and the loan or mortgage, including interests, and interest rate risk coverage instruments. The deduction can also be applied to amounts deposited in credit institutions, accounts complying with formalization and disposition requirements aiming to pay the first acquisition of residence, with the abovementioned limit.

In tax years 2009, 2010, 2011 and 2012, in relation to earnings derived from economic activities, those taxpayers with a turnover below €5MM, and less than 25 employees, will be entitled to deduce 20% of the net revenue declared if they maintain or create employment. That is, as long as each year the employees number is not 1 member below average in 2008.

Corporate Income Tax

For tax years beginning during 2012, the percentage to be applied to the tax base in relation to fractioned payments will be 18%, as in previous exercise.



From 1st January 2012 to 31st December 2013, the percentage of retention or on-account payment in relation to this tax, in application or article 140 of the Corporate Income Tax Law, will be increased from 19% to 21%.

As in the reduction applicable to economic income in personal income tax, for exercises 2009, 2010, 2011 and 2012, the entities with a net revenue below €5MM and less than 25 employees, will be taxed according to the following scale:

- Tax base between 0 and 120,202.41€, at a rate of 20%. In tax periods beginning in 2011 and 2012, the rate will be applied to the base between 0 and 300,000€.
- The remaining tax base, at a rate of 25%.

Non Residents Personal Income Tax

The tax rate applicable to: (i) earnings obtained by a permanent establishment of non resident entities which are transferred to a foreign country, (ii) dividends and other earnings derived from participation in an entities equity, (iii) interests and other earnings derived from the lease to third parties of assets and (iv) earnings derived from the transfer of assets, will be increased from 19% to 21% since 1st January 2012 to 31st December 2013.

Likewise, and during the abovementioned period, the generally applicable rate will be increased from 24% to 24.75%.

LEGAL TEAM

Iván Picó Madrigal
Senior Associate
fgarcia@grupoalae.com

José Martínez Peña
Senior Associate
jmartinez@grupoalae.com

Luis Manuel Jara Rolle
Director
ljara@grupoalae.com
www.grupoalae.com

The content of this Newsletter has the character of general information and does not constitute professional advice or recommendation of any investment and therefore should not be used in that sense. None of the statements or expressions contained herein shall be deemed as a supply of goods or services.

The content of this Newsletter is not intended to be exhaustive or updated. ALAE ABOGADOS is not responsible for the accuracy, completeness, merchantability or fitness for a particular purpose of the information contained in this Newsletter. ALAE ABOGADOS recommends to consult with a professional prior to using any information contained in our Newsletter.

ALAE ABOGADOS assumes no liability for any action, judicial or not, carried out in relation with the information contained in this Newsletter, or for any direct or indirect damages arising from the use of the information contained in this newsletter, its content or service.

Likewise, ALAE ABOGADOS assumes no liability for any links to any website referred to in this Newsletter.

If you wish not to receive information from ALAE ABOGADOS please replay this message with "Unsubscribe".