

New inbound expatriates tax regime Tax Reform 2015

The Spanish inbound expatriates regime (Beckham Law) allows an individual who relocates to Spain to opt to be taxed as a non tax resident the year he becomes a tax resident and during five more consecutive years.

When opting to be taxed as a non resident, Non Resident Income Tax applies only to Spanish income and assets at a flat tax rate of 24% (24.75% for 2013 and 2014), instead of at the progressive tax scale applicable to tax residents.

Current requirements:

1. The employee must not have been a tax resident in Spain during the 10 years prior to his relocation to Spain.
2. Relocation must take place as a result of an employment contract.
3. Assignment must be carried out physically in Spain (up to 15% work performed outside Spain allowed).
4. Employer must be a Spanish company or a permanent establishment in Spain of a foreign company.
5. Income cannot be tax exempt in Spain (non residents income tax exemptions).
6. As of 2010, income must not exceed 600.000 euros/ year.

The regime will not be applicable the moment any of the above conditions are not met.

Tax reform (in force 1 January 2015):

- Regime no longer applicable to professional athletes.
- Regime now applicable to Company Directors with no asset participation (or with a non -related participation).
- Assignment will not need to be carried out physically in Spain
- Employer will not need to be a Spanish company or a permanent establishment in Spain of a foreign company.
- Income can now be tax exempt in Spain (non residents income tax exemptions).
- Income can now exceed 600.000 euros/ year.

Inbound expatriates who relocate to Spain before 1 January 2015 can opt to apply the former inbound expatriate regime in the 2015 income tax return.

Each relocation scenario must be analyzed individually; employee or director, spouse, conditions and foreseeable income are some of the factors to be taken into accounts to avoid international tax disadvantages arising from an automatic non fundamented application of the inbound expatriate regimen.