Spain-Canada's new Double Taxation Agreement

Canada's Ambassador to Spain, Jon Allen, and Spain's Finance Minister, Cristóbal Montoro have signed the Protocol which, when ratified by both countries Parliaments, will substitute the original Double Taxation Agreement (Ottawa 1976) in force since 1980.

The new agreement stimulates trade between the two countries, eliminating tax barriers while promoting job, business and investment opportunities.

It adapts the provisions of the current agreement to the economic relationship between our two countries, adapting its text to the latest OECD Model Tax Convention.

Highlights:

1. Dividends

While the withholding tax rate on payments of dividends and interest by the source country is 15 % of the gross amount of the dividend, where the beneficial owner is a company that holds directly at least 10 % of the capital of the company paying the dividend income, the rate will now be reduced to 5%.

Dividend income paid to certain pension plans will now be exempt from withholding tax.

2. Repatriated profits from the permanent establishment can be taxed by the source country at maximum rate of 5 %.

3. Interest's withholding tax will not exceed 10% of the gross amount of the interest.

4. The revised agreement also includes new provisions on:

- Foreign tax credits
- Dispute resolution
- Assistance in the collection of taxes
- Organization for Economic Co-operation and Development's new standard for the exchange of tax information

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Outbound expatriates regime

The high level of specialization and significant investment of companies in key employees require a wider pool from where to draw human capital. Internationalization creates solutions and opportunities traditionally unavailable and mobility becomes an extended practice. However, what brings added value is the administration of the mobility.

A job abroad is considered as a career opportunity but there are factors surrounding an employee's dislocation that need to be taken into serious account as they will require intense adjustment to the candidate and family.

Multinationals must prepare a comprehensive and well structured mobility plan in order to be cost effective and guarantee a desirable successful outcome both for the company and the employee.

<u>Outbound expatriates regime. Art. 7 p) Income Tax Act 35/2006</u>

1. Outbound expats **should maintain the tax residency in Spain** and continue to pay tax in Spain for their world-wide income.
2. Destination countries with **double tax agreements** with Spain.
3. In absence of DTA, **with a similar income tax and not a tax haven.**
4. **Max. amount tax exempt in Spain: 60.100 €**.
5. Employer must be a company non resident in Spain or a permanente establishment located abroad.

<u>Excess regime. Art. 9 A) 3 b) Income Tax Regulation</u>

Alternatively when expatriates travel abroad fore a continued period of 9 months maximum, they can opt to apply an income tax exemption on the increase in their salary.
