

ESTABLISHING YOUR BUSINESS IN THE CANARY ISLANDS

The best taxation in Europe

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In one of our last articles we mentioned that the Canary Islands Special Zone (hereinafter ZEC as per the Spanish acronym) is the most relevant tax advantage of our taxation regime on business income, which is one of the most attractive aspects of this singular corporate tax status that is unique in Europe. The right combination of this tax tool, together with the right decision on the business to be opened, provides a wonderful scenario for entrepreneurs or international companies planning to invest here.

The ZEC is a low-tax zone which has been created within the framework of the Canary Islands Economic and Tax Regime (hereinafter REF as per the Spanish acronym), for the promotion of the economic and social development of the Islands with the aim of diversifying the economy. It was authorised by the European Commission in January 2000. On a general basis, any entity or branch which intends to carry out an industrial, commercial or service activity included in a determined list of authorised activities can set up under the ZEC regime, in compliance with certain requirements.

The most relevant tax advantages for the ZEC companies

rely on the corporate tax status plus some other important advantages on indirect taxes. ZEC Entities are subject to the Corporate Income Tax in force in Spain, at the reduced rate of four per cent (the overall rate for Non-ZEC companies is around 25 per cent). This special rate will apply to a maximum amount of the income tax, depending on the number of jobs created.

It's also relevant to mention the Income Tax Non-resident exemption. The distribution of profits to non-residents has no further tax in Spain except in their own jurisdiction. The dividends paid by ZEC subsidiaries to parent companies resident in another country as well as the interest and other incomes from transfers to third parties of capital and capital gains from real estates, obtained without a permanent establishment, are exempt from withholding tax.

This is a matter of great significance for non-resident entities from the EU, the Directive over mother-subsidary companies, opens a great scenario for tax-planning as some countries declare those dividends at the residency of the shareholder as exempted. The distribution of profits to resident holding companies is also exempted of tax at the holding Spanish company.

In the countries where it's applicable (such as Spain), these two last statements could also be worked for the purpose of planning inheritance tax. The right structure could imply a tax on trading income at four per cent, building wealth in a holding company at zero per cent

cost, and finally optimising the wealth and inheritance tax scenario.

The exemptions described also apply to incomes from the residents of any state where such incomes are paid by a ZEC company and come from operations materially and effectively carried out within the geographical area of the ZEC. These exemptions do not apply when the income is obtained through countries or territories with which there is not an effective exchange of tax information, or when the parent company has its tax residence in one of these territories.

Property Transfer Tax and Stamp Duty (ITP-AJD)

The ZEC entities are exempt from these taxes in the following cases:

- Acquisition of goods and rights for the activity, development of the ZEC Entity in the geographical area of the ZEC.
- Corporate operations done by the ZEC entities, except their dissolution.
- Documented legal acts related to transactions of these entities in the geographical area of the ZEC.

Another advantage for the ZEC entities involves the Canary Islands General Indirect Tax (IGIC as per the Spanish acronym). This tax is similar in nature to VAT, although there are major differences such as the lower tax rates (seven per cent in general terms). The supply of goods and services among ZEC entities, as well as imports

of goods made by them, are exempt from IGIC.

Requirements to become a ZEC entity

- The company must be newly-created, with its registered address and effective place of management within the geographical area of the ZEC (Canary Islands).
- It's necessary to conduct activities that are permitted in the ZEC, according to a specific list of authorised activities (wide range).
- There must be a minimum investment of €100,000 (in Gran Canaria and Tenerife) or €50,000 (in the rest of the Islands) in fixed assets related to the activity within the first two years, following registration in the Official Registry of ZEC Entities (hereinafter ROEZEC).
- It's necessary to create at least five full time jobs in Gran Canaria and Tenerife, or three in the other islands during the first six months following registration in the ROEZEC and this average must be maintained during the time that the benefits are enjoyed.
- The sole director or at least one member of the board of directors must be resident in the Canary Islands.

ZEC tax advantages are compatible with other REF tax incentives like the Reserve for Investments, the regime of deductions for investments and the tax-free areas, within the limits of the EU Law on accumulation of financial support and under certain conditions.



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The procedure to obtain the qualification of ZEC entity entails –in general terms– the elaboration of a precise project that includes some documentation from the investors, reports about the economic investments and business perspectives allocated to a proper development of the pretended investment. The project must be submitted to the ZEC Consortium Board to start the process which could last a maximum of two months.

Cabrera Rodríguez is a legal firm with a detailed knowledge of the particularities and special features concerning the Economic and Fiscal Regime of the Canary Islands, with exten-

sive experience and specialised staff in the ZEC entities from a legal, fiscal and economic perspective (our rate of approved projects is 100 per cent).

Our firm combines the ZEC tool with the right international company structure within the framework of legal certainty and tax efficiency in order to provide our clients with the most effective planning which could create an immediate substantial advantage in comparison with any competitor.

We are available for any consultation, in which case you can kindly contact us via our email address: info@cabrerarodriguez.com or visit our website Cabrerarodriguez.com. ■

Legal certainty and tax efficiency are our patterns



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