



NEWS ON TAXATION IN THE CANARY ISLANDS FOR 2020

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The Draft Budget Law of the Autonomous Community of the Canary Islands is in the process of submission of overall amendments within the framework of its parliamentary procedure.

According to the published text and with the aim of effectively complying with the budgetary stability requirements of the Autonomous Community, the Budget incorporates several tax modifications, among which the following ones are to be highlighted:

- **Canary Islands General Indirect Tax (IGIC)**

The general tax rate will increase from 6.5 % to 7 %, which will entail the necessary adjustment of the invoicing programmes.

Likewise, the increased tax rate will be raised from 13.5 % to 15 %.

Among the specific modifications regarding this Tax, the following ones should be noted:

- The reduced tax rate of 3 % to the provision of telecommunication services will no longer be applied, being these services now taxed at the general rate of 7 %.
- The application of the zero rate will be restricted to electricity supplies made by distributors to consumers, being limited to those cases where the consumer is a natural person and holder of an electricity supply point at their home, with a contracted power equal to or less than 10 kW. Otherwise, the reduced rate of 3 % shall be applied.
- It is specified that the zero rate will be applied to the delivery of goods, provision of services and imports of goods related to water, if they are directly allocated by the purchaser or importer to the activities described in the regulation.



- The 0 % tax rate will no longer be applicable for community equipment works consisting in the construction of publicly owned water treatment and desalination plants.
- For the application of the zero rate to certain deliveries and executions of works on social housing, it is no longer a requirement that such houses must be the primary place of residence of the purchaser.
- The wording of the requirements for the application of the 3 per cent rate to the acquisition of real estate properties by certain groups (groups aged up to 35 years, disabled people, women who are victims of gender violence, large or single-parent families and family units that do not exceed certain income levels) will be modified in order to clarify the application requirements as well as the consequences of non-compliance.
- Furthermore, the reduced rate of 5 per cent applicable to the delivery of houses being the habitual place of residence of the purchaser will be limited by specifying the requirements and the effects of non-compliance.

- **Inheritance and Gift Tax**

Along with the changes in indirect taxation, the Budget foresees the progressive elimination of the general exemption of 99.9 % on the Inheritance and Gift Tax that is currently in force.

This amendment is due to and legitimises, albeit in a limited way, the proposals made at a national level for the abolition of this tax. It should be mentioned that the proposed amendment is disparate in its application depending on whether "mortis causa" or lucrative "*inter vivos*" acquisitions (donations) are involved.

Thus, concerning the kinship exemption in the case of "**mortis causa**" **acquisitions**, it should be noted that:

- The applicable exemption for Group I remains at 99.9 %.
- A new scale will be established for kinship Group II, which progressively reduces the application of the exemption according to the tax rate resulting from the tax assessment.

If the tax rate is equal to or less than 45,000 euros, an exemption of 99.9% shall be applicable, which will be progressively reduced by 10 % for every increase of 30,000 euros in the tax rate.

Pursuant to the literal wording of the regulatory text being currently processed by Parliament, it seems that the tax rate cannot be scaled for the purpose of getting access to certain tax rate tranches.

When the tax rate exceeds 305,000 euros, no exemption shall be applicable.



Regarding the application of the exemption in the case of **lucrative “inter vivos” donations or acquisitions**, the measure will be even more restrictive, limiting its application exclusively to kinship Groups I and II, according to the following scheme:

- The applicable exemption for kinship Group I remains at the tax rate of 99.9 %.
- A new scale will be established for kinship Group II, which progressively reduces the application of the exemption according to the tax rate resulting from the tax assessment, on the same terms as the “mortis causa” acquisitions.

In contrast to what happens in the case of mortis causa transfers, in the case of “inter vivos” acquisitions (donations), no exemption will be applied to kinship Group III comprising all collateral relatives of second (siblings) and third degree (uncles, nephews), as well as all ascendants and descendants by affinity (parents in-law, sons-in-law, daughters-in-law).

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