



ROSE
Financial Planning

ANY INVESTMENT IN SPAIN NEED DIFFERENT THINKING!

Like any country in the world, Spain has its own little foibles and you need to apply a non – British attitude when it comes to any type of investment, whether it be property or monetary.

The issue of tax and its various types will always be a primary driver but there are also other considerations for a British national. So let's cover some of these factors off.

Residency versus Non Residency.

This is a key factor for, as a Resident of Spain (which you are obliged to apply for after a mere few months of permanent residency here in Spain) you are taxed on your worldwide income and assets as opposed to just those in Spain as a Non Resident. You can spend up to six months a year here and still maintain your Non Resident status but incomes earned here are subject to the normal tax on earnings as would apply in the UK.

This is a fairly important point to take on board because too many British visitors, permanent or otherwise, think otherwise or, even if they understand their obligations to declare earnings, do not do so. That is illegal and dangerous to say the least.

So, an important decision that has to be taken from the outset is your intent towards the Residency issue.

Tax.

There are many forms and these generally take the same format as in the UK.

Income tax is fairly similar in its structure with personal allowances and a top rate not too different from our own. Generally, elderly citizens are treated slightly more favourably so it may be worth registering for Residency if you do spend more than six months a year here.

Capital gains tax can be deemed heavy handed for Non Residents and the application of a 3% withholding on the sale price of property seems painful! But the logic is reasonable; you have invested here, made a profit and you are subject to the tax on the gain (at 18%). The 3% withholding is there to ensure

that you do 'forget' your obligation and it will then be necessary to file a return to calculate the actual tax due.

Inheritance Tax (IHT) is where significant confusion and misunderstanding lies. This is mostly due to the relative 'greyness' of the interpretation of the rules, but generally speaking the regime can be viewed as far harsher than in the UK. This is because of various key elements;

- There is no automatic spouse exemption on the family home
- The personal allowance in Spain lies with the beneficiary and not the deceased
- The same allowance is tiny in comparison to the UK

That being so, it really is necessary to ensure that a Will is executed here. But also, and the theme of thinking differently especially applies here, you have to apply an alternative strategy from the outset and purchase of any asset.

For example, for a property purchase, far too many couples think British and buy in their joint names and, perhaps if they are fortunate enough, use their capital to buy outright. Fair enough I hear you say. That is everyone's dream; to be able to be mortgage free for the first time in your life. But that is dangerous (British) thinking and ignores the exposures and benefits to applying an alternative way of thinking. And here is why;

- The more free equity there is in the property, the greater the potential for IHT
- If your capital base is in the currency of £, there is the potential of earning per cent per annum as an income by retaining your £ and investing it and borrowing in Euros. Over a period of say 20 years, just 2% per cent per annum adds up to a lot of money
- Again, if your currency base is £, what if your Euro asset, your property, suffers from a weakening of that currency. The future of the Euro is hardly certain.
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So you may wish to consider applying a different strategy when buying to take up these factors. That is to;

- Add the eventual beneficiaries of your estate (your children?) to the deeds
- Take an 'Interest Only' mortgage whether you need it or not
- Retain your capital in £ and look for tax efficient tools for investing such
- Execute that Will!

Other Investments

In August 2005 the EU Directive on Savings and Taxation came into force thus applying reporting requirements on many previous tax havens allowing tax revenues from investments and savings to be increased.

As a Resident or Non Resident of Spain there remain opportunities that allow for the investment to be structured in such a way that income tax is avoided. Generally speaking for both UK and Spanish Residents alike, 'pure'

investments are exposed so it is necessary to apply a different attitude to achieve a tax free result. Spain tax authorities do not recognise the use of Trusts (a tax umbrella) in the way that their British counterparts do, so the use of a pension Self Invested Personal Pension (SIPP) could never be considered. But, on the other hand, Life Assurance 'wrappers' (again just an umbrella) are so, to achieve the net result without tax being applied a Spanish Resident would use the latter. How does this work? Simply, withdrawals (or income if you like) are deemed to be a capital drawdown rather than income per se.

Even if you have a conservative approach to investing, and under normal circumstances would want to hold cash deposits, you should still consider using a more tax efficient structure, especially if you rely on the income from such capital. For example, if you can save a quarter of the gross income for your personal use, what impact would that have on the quality of your lifestyle?

Financial Planning in its widest interpretation is not just for the fortunate few but for everyone. The reality from my experience is that many, if not the majority of folk do not really 'plan' but rather react to life's developments. And here in Spain there really is a need to take a good, hard look at what can come your way and plan accordingly. Forget British! That could cost you!

See www.rosefp.com or call 0034 677 874 948.