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Financial Planning

SPANISH PROPERTY & MORTGAGE TAX CHANGES wef JANUARY 2012

2012 has already seen some interesting moves by the Spanish Government, local and national, and Tax Authorities to capture additional tax income (although many in the industry would argue that these moves are, in the main, counter productive).

In the main the results of these changes appear negative ... but there are positives to explore, especially with a longer term view in mind!

1) Property taxes

The 3 primary property taxes in Spain are;

- i) IVA (VAT equivalent) on all 'new' (first time registration) properties.
- ii) ATP (Transfer Tax) on all 'resales'
- iii) Capital Gains Tax (CGT)

i) IVA (VAT equivalent)

WEF 1st January 2012, IVA is being held at just 4% (a reduction of 4% from the previous 8% which was originally announced in September 2011). That is a real positive for would-be new build purchasers and it is clear that the Spanish Authorities would like the large excess or over-supply of such properties to be cleared as a priority over all other property types.

ii) ATP (Transfer Tax)

This has to be seen as a negative!

The central government allow the provinces to set certain taxes themselves, ATP (Transfer Tax) being one example. So it is down to individual Provinces to determine their own levels. For example, Andalucia (which covers most of the Southern coastline from the Costa del Sol in the west to Costa Calida in the east) has added extra pain to would-be purchasers by adding the following tax hikes;

- a) 8% (from 7% in 2011) up to a price of €400,000
- b) 9% for the banding from €400,001 to €700,000
- c) 10% for the banding from €700,001 ++

A definitive negative for Resales but it will certainly make potential purchasers look at 'new' build with potential savings of 4-6%!!

iii) Capital Gains Tax

This is not something to be overly concerned with currently as this tax is often increased and decreased with differing governments, and impacts the long term rather than the short term (i.e. it is when you come to sell the property that the tax is payable).

Previously at 18% in 2011, this has now increased to 21%, but even this is a lot less than the 'old' 35% that Non Residents had to suffer until 2007 when it was massively reduced courtesy of pressure from the EU.

2) Mortgage Taxes

The primary tax is referred to AJD and works on a complex formula of a 1% base plus certain % mark ups. The average tax payable in 2011 was 1.6%.

However, for 2012 the base has been increased from 1% to 1.2%, so the actual 'pay rate' will likely now average a little less than 2% of the mortgage value.

Another negative!

SUMMARY

Look at 'new' or 'first time registration' properties. These could actually be several years old if they have not yet been sold or re-possessed by lending developer banks.

Why?

- i) Lowest applicable property tax at just 4%.
- ii) These properties will show massive savings (some have been discounted from their original list prices just a few years ago of up to 70%.)
- iii) MOST 'new build' properties come with up to 100% mortgages.
- iv) Some offer free furniture packs.
- v) And rental guarantees (to cover the mortgage payments)
- vi) And even closing costs paid on your behalf!
- vii) The investment required from you is often limited to only €6,000+/-!!

New Builds are where the real action will be in 2012!

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