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Spain

Law & Practice
and
Trends & Developments

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SPAIN

Law and Practice

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1. Tax

1.1 Tax Regimes

Individuals could become taxable in Spain whether they become residents for tax purposes in that territory or they obtain income and/or capital gains from a Spanish source. Individuals resident in Spain are subject to Personal Income Tax on their worldwide income, as well as Wealth Tax and Inheritance and Gift Tax on their worldwide assets, subject to tax treaties. Non-residents are subject to the same taxes (Non-resident Income Tax) on their Spanish-source income and Spanish assets, as qualified under internal rules and tax treaty provisions.

Personal Income Tax (PIT)

Spanish-resident individuals are subject to PIT for their worldwide income, regardless of where it may have been generated and regardless of the payer's residency. Depending on the type of income, PIT is split into two categories: general taxable base (including income derived from personal work and income from real estate properties) and savings base (including dividends, interest and capital gains derived from the transfer of assets). The PIT rates for the general taxable basis are progressive and depend on the Autonomous Community of residence (PIT has been partially handed over to the Autonomous Communities) and ranges between 18.5% and 48%. The rates for the savings basis are also progressive, ranging from 19% to 23%, no matter the Autonomous Community of residence.

The following special PIT rules merit further explanation:

Special tax regime applicable to workers relocated to Spanish territory (impatriates tax regime)

Pursuant to PIT Law, individuals who become tax-resident in Spain as a result of relocating to Spain for work-related reasons, can choose to be liable under NRIT rules provided that certain requirements are met, ie, individuals would be subject to Spanish-sourced income, maintaining their status as taxpayers of PIT during the tax period in which the residence change was made and during the five following tax periods, despite retaining their status of tax-resident in Spain.

The progressive tax rates applicable under this special regime range from a 24% rate for a taxable base of up to EUR600,000 per annum and 45% for EUR600,000 upwards per annum.

Exit tax

Spanish tax residents who change their tax residence are liable in Spain on unrealised capital gains derived from shares in any kind of company (provided that the taxpayer has been tax-resident in Spain for at least ten of the 15 years preceding their departure). In the case of taxpayers who opt to be taxed under the special "impatriates tax regime", the ten-year deadline starts from the first year in which the special tax regime ceases to be applied.

The Exit Tax applies when the market value of the shares exceeds, jointly, EUR4,000,000, or the percentage of interest exceeds 25% and the market value of such shares exceeds EUR1,000,000.

The capital gains should be included in the last tax return of the taxpayer as a tax resident in Spain. If the change of residence is to another EU country it will only be necessary to file a tax form, but taxes will not need to be paid until the assets are transferred.

If the change of tax residence is temporary:

- for labour reasons to a territory which is not regarded as a tax haven from a Spanish perspective; or
- for any other reason to a territory which has signed a tax treaty with Spain for avoidance of double taxation with an exchange of information clause,

subject to prior request by the taxpayer, the payment of this tax debt can be deferred for up to ten years upon provision of a guarantee.

Controlled Foreign Companies (CFC)

CFC rules apply to foreign subsidiaries controlled (by holding, directly or indirectly, individually or jointly with related parties, 50% or more of the share capital, equity, results or voting rights) by Spanish residents who have been subject to a tax which is lower than 75% of the tax that would have been paid under Spanish Corporate Income Tax rules.

Spanish tax law sets out an allocation rule pursuant to which the "total income" (and not only the passive income) of a CFC entity should be attributed to the Spanish controlling shareholder. However, this rule only applies when the CFC entity does not have enough "substance" to carry out its activity, unless it can be proven that:

- activity is carried out with human and material resources of another non-Spanish resident entity belonging to the same group; or
- the subsidiary's incorporation or operation is grounded on sound business reasons.

When the subsidiary has "substance", only certain types of income (in general, passive income) are subject to the CFC rules.

In the case of holding companies, CFC rules will not apply to income derived from real estate property owned by a

non-resident affiliate, or dividends and capital gains from shareholdings, where certain substance requirements are met.

No CFC rules will apply to entities resident within the EU (even though they obtain passive income) provided that the taxpayer can demonstrate that the CFC was set up for valid economic reasons and is engaged in business activities. However, the approach the Spanish tax agency (STA) will adopt regarding their interpretation of valid economic reasons/substance requirements (which preclude the application of the CFC rules within the EU) is still uncertain.

Non-resident Income Tax (NRIT)
Non-residents shall be subject to NRIT on Spanish source income/capital gains at a general 24% flat rate. However, taxpayers who are EU tax-resident are taxed at a 19% flat rate. It is worth mentioning that certain types of income, such as dividends, interest and capital gains derived from the transfer of assets, are always taxed at a 19% flat rate.

Inheritance and Gift Tax (IGT)
Spanish rules governing IGT are quite complex, and require, in order to assess the global tax effect of lifetime gifts in Spain, consideration not only of the tax residence of the beneficiary and the location of the assets and/or rights to be gifted, but also the tax residence of the donor, who could be subject to PIT (if the donor is tax-resident in Spain) or NRIT for the capital gain arising in the gift. Unlike the gifts, the deceased will not be subject to PIT on the capital gain arising from the mortis causa transfer.

The beneficiary or heir/legatee, however, will be taxed under the IGT in Spain, irrespective of the location of the property gifted/assets or rights received, if tax-resident in Spain. Sums received as a result of life insurance policies of which they are a beneficiary will also be subject to IGT (in the case of non-resident beneficiaries, only where the policies were taken out with Spanish insurers or taken out in Spain by foreign entities operating in Spain).

However, as certain items of the IGT have been partially handed over to the Autonomous Communities, most of these territories have established their own rates and allowances applicable either in the event of real estate located in an Autonomous Community or, in all other cases, where the beneficiary or the deceased has lived more days during the last five years in an Autonomous Community (eg, Madrid provides a 99% allowance in the case of gifts/transfer mortis causa between relatives established in Madrid).

In the event that the beneficiary or the heir/legatee is non-resident in Spain, they will only be subject to IGT for the gifted assets/rights for tax purposes, which are located in Spain, or the rights gifted that could be exercised within this jurisdiction. Even in these cases, the legislation of the Autonomous Community could be applied, depending on the location of the gifted or transferred assets/rights and on the residency of the taxpayer.

In general, non-residents are subject to the State IGT Law (without the possibility to apply special Autonomous Communities' rules); nevertheless, non-resident taxpayers who are tax-resident in an EU country can choose to be taxed under regional rules (depending on the residence of the taxpayer and on the place in which the majority of the assets are located). Additionally, according to the European Court of Justice (ECJ) case law in this regard, the Autonomous Communities' rules may also be applied by non-resident taxpayers who are tax-resident in third (non-EU) countries.

The IGT taxable base is formed by the fair market value of the transferred assets/rights, and it is taxed at the rates contained in the scale provided by the IGT Law, which ranges between 7.65% and 34% pursuant to State IGT Law (in each case, as previously mentioned, the tax scale of the relevant Autonomous Community should be considered).

It is worth noting that State IGT Law provides for a reduction of 95% (this allowance can be improved by certain Autonomous Communities) on the value of the transfers of "family undertakings" or "family businesses" (both for resident and non-resident companies) in either onerous inter vivos or mortis causa transfers, under certain circumstances and provided the following requirements are met:

- the company is engaged in a business activity. The entity will not be considered to be carrying out a business activity (and will not benefit from the exemption) if, during more than 90 days in the taxable period:
  (a) the majority (more than 50%) of its assets are securities (less than a 5% shareholding); or
  (b) the majority of its assets are not engaged in business activities;
- the individual must own at least a 5% stake in the entity, individually, or 20% together with the individual's spouse, ascendants, descendants or collateral up to the second grade; and
- a Spanish tax-resident individual belonging to the family group described here must carry out management activities in the company, and remuneration received for this must be the source of more than 50% of the individual's total business, professional or dependant employment income.

The tax liability should be multiplied by a co-efficient (which ranges from one up to 2.4). This ratio will depend on:

- the degree of kinship between the transferor and the acquirer; and
- the pre-existing net wealth of the donor/heir.

The application of the multiplying co-efficients could increase the applicable tax rate by up to 81.6%.

Wealth Tax (WT)
Individuals are subject to WT. Residents in Spain are liable for their worldwide net wealth, whereas non-residents are only liable on their net assets located in Spain or that can be exercised in Spanish territory.

This tax has been completely handed over to the Autonomous Communities (although State WT Law acts as a framework) – therefore, as they have legislative authority over WT, there are differences between territories. The Autonomous Community of Madrid, for example, has decided to provide 100% tax relief of the WT debt. This tax relief is applicable only in the event that the taxpayer has their habitual residence in that Autonomous Community.

In general, non-residents are subject to the State WT Law (without the possibility to apply Autonomous Communities' rules); nevertheless, non-resident taxpayers who are tax-resident in an EU country can apply the Autonomous Communities' rules in which their higher-value assets are located. As regards non-resident taxpayers who are tax-resident in third countries, there has not been case law/administrative doctrine that supports the application by such taxpayers of the Autonomous Communities' rules, as has been the case with IGT.

The taxable base of WT is the individual's net wealth (total assets minus total liabilities), taking into account objective valuation rules provided by WT Law.

Exemptions/reductions
WT Law provides for certain exemptions. There is a common minimum exemption threshold of EUR700,000. Additionally, State WT Law has established other exemptions related to the ownership of certain qualifying assets, such as:

- habitual residence with a maximum of EUR300,000 threshold (only for residents);
- individual pension schemes; and
- family business assets and shares of family businesses, provided that certain requirements are met.

Additionally, Autonomous Communities have established their own tax benefits.

Non-residents may also benefit from the WT exemption on assets that generate NRIT exempt income (ie, stocks).

The applicable WT rates may vary depending on the Autonomous Communities. For instance, as mentioned previously, Madrid provides a 100% allowance, so that its residents do not have to pay any wealth tax, regardless of their net worth. However, according to the State WT Law, the rates ranges from 0.2% to 2.5%.

The WT quota, together with the PIT quota, cannot exceed 60% of the taxable base of the latter (there is no limit for non-residents). In the event that this limit is exceeded, the WT quota should be reduced down to this threshold (with the limit of 80% as for the WT quota).

Local Taxes
Real Estate Tax
An individual's real estate property is subject to local taxes, such as Real Estate Tax (which depends on the location of the real property, meaning that both resident and non-resident individuals who own real estate located in Spain are subject to this tax).

Tax on increase in urban land
A tax on an increase in urban land is levied on the transfer of urban real estate properties. The taxable base is determined under an objective scheme which takes into account, essentially, the cadastral value of the property and the number of years that it has been held. It is important to note that the rules to determine the taxable base of this tax have been challenged by the Spanish courts.

Reporting obligations
Spanish tax residents are obliged to inform the STA about the ownership of assets (basically, current accounts, stocks, bonds, insurance products and real estate assets) held abroad with a value of over EUR50,000 (through Form 720: Declaration of Assets Deposited Abroad).

However, this obligation has been challenged by the European Commission and it is expected that changes to the current regulation will be implemented.

In conclusion, Spain currently offers special tax regimes, a special impatriates regime, and IGT/WT exemptions/reductions (in the case of holding and transmission, respectively, of family businesses) that may be used for Estate Tax and WT planning.

However, when relocating to Spain, implications other than Spanish taxation must be carefully assessed, in particular, whether the wealth and estate legal and tax planning done

before the change of residence is as efficient in Spain as it would have been in their home countries, mostly due to the lack of recognition of certain entities in the Spanish legal system (trusts, private foundations, etc).

1.2 Stability of the Estate and Transfer Tax Laws

Spanish national Estate and Transfer Tax laws have not changed significantly in the last 30 years.

However, as anticipated in **1.1 Tax Regimes**, it is important to bear in mind that Autonomous Communities have used their legislative capacity to amend the IGT, WT and Transfer Tax rates and allowances that are applicable to their tax residents.

This has created notable differences in taxes borne by taxpayers, depending on the Autonomous Community in which their assets are located or where they are resident for tax purposes.

Recent ECJ judgments have had a notable impact on non-residents' tax and estate planning, as non-residents (both EU and non-EU) have recognised the possibility of applying regional legislation. However, as ECJ judgments have not been fully implemented in the Spanish tax system, the situation for the WT and IGT purposes of each non-resident will be carefully assessed to confirm tax rules applicable in their particular situation.

Current discussions on Estate and Transfer Taxes are focused on simplifying and unifying tax rules applicable to taxpayers, regardless of where assets are located or whether individuals are tax-resident.

It is unlikely that the crisis caused by COVID-19 will result in any changes in this matter.

1.3 Transparency and Increased Global Reporting

The Spanish tax legislation provides two general anti-avoidance rules (GAAR), which are based on the idea that the transactions performed use a legal form or configuration which does not match the underlying aim they pursue.

Abuse of the Law Provision

On the one hand, so-called "conflict in the application of the tax law" is an anti-avoidance rule based on the figures of abuse of the law. Fraud is therefore deemed to exist where a taxable event is partially or completely avoided or where taxable income and/or tax liability is decreased by means of actions or transactions:

- which, considered individually or collectively, are manifestly artificial or inappropriate for achieving the result obtained; or
- which do not have relevant legal or commercial effects other than tax savings and the effects which would have been obtained by means of usual acts or transactions. This anti-avoidance rule works on a similar basis to anti-fraud techniques already known in common law as "substance over form" and the "business purpose test".

Tax-Sham Provision

On the other hand, the second general anti-abuse provision is intended to correct the effects of a "tax sham". Tax-sham provision is essentially the same as civil sham, ie, a sham transaction exists where another different business purpose is concealed under the guise of a normal legal transaction, which may be contrary to the very existence of the transaction ("absolute sham"), or aimed at the performance of another different transaction ("relative sham"). What differentiates a sham is the shared will of the parties to conceal a specific unlawful reality. Accordingly, the sham involves a desired and deliberately provoked discrepancy by the parties between its true nature and what it manifests externally, for the purpose of creating a legal appearance that conceals this nature from third parties.

Spanish tax administration makes frequent use of these legal institutions. This means that every tax planning initiative should bear in mind its existence and potential application.

Additionally, Spain is fully committed to the efforts of the international community to prevent tax evasion and tax fraud and, in particular, to the implementation of exchange of information agreements. Most of the double taxation treaties (DTT) signed by Spain include the exchange of information clause, and specific agreements with traditional offshore jurisdictions have recently come into force (eg, the Bahamas, Curaçao, etc) or are currently under negotiation (eg, the Cayman Islands, Bermuda, Macao, Guernsey, etc).

Since 2014 (in the case of FATCA) and 2016 (in the case of CRS), Spain has fully implemented the Automatic Exchange of Information reporting standards. Under these regulations the Spanish tax administration is provided with relevant information about financial assets held abroad by their residents and, conversely, provides other countries with relevant information about financial assets held in Spain by residents in other countries.

It should be highlighted that the Spanish tax administration has highly developed automated information-processing systems that allow it to handle all the tax-relevant information it receiveswith agility.

2. Succession

2.1 Cultural Considerations in Succession Planning

The succession regime established by the Spanish Civil Code has not been subject to relevant changes for centuries. Present-day society is therefore demanding an update of the regime to adapt it to suit the transformation of the family model, which has changed dramatically during the last 25 years.

In Spain, the common succession regime, applicable in most of the country, co-exists with the particular regional legal institutions of certain territories (*territorios forales*), which traditionally incorporate significant exceptions. In addition, Spain has incorporated the EU succession regulations.

Spanish citizens can determine the applicable succession regime by changing their residency for civil-law purposes (which is not necessarily the same as tax residency) within Spanish territory. Likewise, this can also be achieved by changing their residency within the territory of the EU, as the European regulations allow a testator to elect to apply the succession regime of the member state of their usual residency.

The main characteristic of the Spanish regimes is the protection they grant to the family. For this reason, with very limited exceptions in some specific territories, the freedom of what a testator can dispose of by granting a will is restricted. This protection, in general, grants preference to the blood bond over marriage.

The Spanish regime distinguishes between succession with a valid will (testate succession) and without it (intestate succession), which can substantially affect the manner in which the assets of the hereditary estate are distributed. Most high net worth families therefore regulate their succession in detail by granting a will.

From a tax standpoint, protection (tax neutrality) is granted to the mortis causa transfer of family enterprises with fewer requirements in the case of transfers as a result of succession than in the case of donations.

As regards economic activities, the following traits must be highlighted:

- there is still a very limited number of families that have adequately resolved corporate governance of family businesses and generational renovation, and the number of business groups that survive the third generation is very limited; and
- many steps have to be taken to achieve effective attribution of decision-making power within the company with respect to the next generations (which have been raised in a global market).

2.2 International Planning

Over the last few years, Spanish investments in foreign countries have significantly increased, thereby multiplying the number of investments through – or the search for – investment vehicles/structures that may be adequate, fundamentally, to achieve tax efficiency.

As exposed in **1.1 Tax Regimes**, it must be borne in mind that non-residents with investments in Spain may be subject to PIT, WT and IGT for the transactions they carry out in Spain.

Even though in the last few years Spain has notably developed its network of tax treaties associated – and not associated – with the EU, in respect of succession taxation only three have been formalised (with Greece, France and Sweden).

Indeed, international tax planning is mainly aimed at achieving efficiency in the repatriation of funds, with the highest degree of tax neutrality on the taxation of dividends, interest and capital gains, rather than attempting to achieve efficiency from a succession standpoint. Nevertheless, the creation of these structures may have evident impact on the legal implications of the succession, especially if they involve legal structures from other jurisdictions (namely, trusts) which are not recognised by Spanish law.

2.3 Forced Heirship Laws

Spanish jurisdiction provides different succession regimes, depending on the personal civil residence of the deceased. The Autonomous Communities of Galicia, Basque Country, Navarre, Aragon, Catalonia and the Balearic Islands have their own succession laws which are different from the Spanish common succession regulations.

However, except for Navarre and some parts of the Basque province of Alava, all the regimes rule forced heirship obligations in favour of the descendants, who are entitled to inherit from one quarter to two thirds – in the common regime – of the net value of the heritage.

For those who die without progeny, the common, Catalan and Balearic regimes consider surviving parents and even any other surviving ascendant as forced heirs with respect to, at least, one quarter of the net value of the inherited estate, depending on whether or not they concur with the surviving spouse.

Finally, except in some parts of the Basque Country and the Balearic Islands, the surviving spouse has the right to usufruct of all or part of the inheritance assets, depending on the applicable civil regime.

2.4 Marital Property

Typical Marital Property Regimes

The default marital property regime in common civil legislation in Spain is community of property (*sociedad de gananciales*). Under community of property, spouses will jointly own all income earned and property purchased during the marriage, while each one will separately own all his or her prenuptial assets and all those inherited or acquired by a donation, or in any way, without consideration. In general terms, this economic regime allows spouses to manage, jointly and severally, the community property and to buy new common assets. However, in order to sell or charge them it would be necessary to get the agreement of both spouses.

By (prenuptial or postnuptial) agreement of the spouses, they can opt for a separate heritage regime (*separación de bienes*) in which they will not have joint property (although there are limitations regarding the use of the marital home, regardless of who is the owner). This separate regime is the default marital property regime in some regional civil regulations which is applicable to those with regional legal residence. This separate regime does not exclude the right for a compensatory payment or pension in the event of divorce.

Another legal regime spouses can expressly opt for rules completely separate ownership of the income earned and assets purchased but provides for automatic compensation of the increase or decrease of the separate heritages once the marriage ends (*participación en las ganancias*).

Despite these three typical marital property regimes, spouses can almost freely agree on how to manage and share (or not) their income and assets in a marital property regime agreement (*capitulaciones matrimoniales*) as long as they keep equal rights and obligations for both spouses.

It is possible to change from one economic regime to another as many times as this is decided by postnuptial agreement.

Even though a change of marital property regime should not trigger direct or indirect taxation, such situations should be carefully analysed to confirm this conclusion.

Prenuptial and Postnuptial Agreements

The Spanish Civil Code and the regional civil regulations that are still in force in Spain rule the marital property regime of marriages if no prenuptial or postnuptial agreement is signed between the spouses. Nevertheless, nuptial agreements can be entered into before or during the marriage, and can also be amended from time to time. These agreements allow the spouses to rule the joint or separate ownership of their assets and the management thereof, as well as the economics of a future divorce should it happen (eg, destiny of the common heritage or compensation payments). These economic arrangements will be respected by the courts.

Although the nuptial arrangement can also provide agreements regarding relations with the children in the case of a divorce, the Spanish courts are not obliged to follow the parents' agreements in these matters.

2.5 Transfer of Property

In principle, the acquisition of assets by way of a gift or succession, as well as by way of any kind of onerous transmission, involves an updating of the cost for tax purposes for the purchaser.

However, in the case of donations to which the tax benefits (reduction of 95% in tax base discussed in **1.1 Tax Regimes**) of the "family business" are applicable (in which the donor is not subject to taxation), the acquirer/beneficiary does not update the value of the assets received for tax purposes (ie, he or she subrogates in the acquisition tax cost of the donor).

2.6 Transfer of Assets: Vehicle and Planning Mechanisms

As explained in **1.1 Tax Regimes**, transfer of "family businesses", either inter vivos or mortis causa, is the easiest way to transfer assets to the next generation without bearing tax costs in Spain (for both donor/deceased and beneficiary/heir).

Additionally, due to the current legislative situation, mortis causa transfers of assets (different from "family businesses") that are eligible to apply the Madrid IGT legislation may currently benefit from the 99% exemption and the heir should not bear taxes upon acquisition.

In the case of donations that may benefit from Madrid IGT rules, the same 99% exemption is available, but capital gain for PIT purposes arising for the donor must also be considered. In the last few years, many high net worth individuals have made donations of cash applying Madrid IGT rules.

Transfer of partial interest as exposed in **4.3 Transfer of Partial Interest** is also a way (partially) to transfer assets, reducing the tax costs.

In the case of non-residents, the donation of assets located outside Spain is not subject to IGT in Spain. In addition, subject

to the analysis of the tax implications arising in other territories, donations of cash to non-residents may not trigger tax costs.

2.7 Transfer of Assets: Digital Assets

A few recent criteria issued by the STA regarding cryptocurrencies all refer to PIT and WT. According to such binding rulings, cryptocurrencies are treated for WT purposes as assets that should be integrated into the WT taxable base. The tax treatment of these assets for IGT purposes should be in line with WT, and therefore, cryptocurrencies should be integrated into the total estate with no exception. For PIT purposes, cryptocurrencies do not qualify as a payment method, which impacts taxation of capital gains/losses upon transfer/use.

3. Trusts, Foundations and Similar Entities

3.1 Types of Trusts, Foundations or Similar Entities

As explained in **3.2 Recognition of Trusts**, trusts are not recognised under Spanish law and, therefore, are not commonly used in Spain for estate and wealth planning. Private foundations are not used for these purposes, either (see **10.2 Common Charitable Structures**).

Unit-linked insurance contracts, ie, in which the policy-holder bears the risk of the investments in the assets underlying the insurance policy, are clearly inspired by the regulation of trusts and are fully recognised under Spanish and other civil law systems, as well as by common-law countries. Unit-linked insurance contracts achieve a similar outcome to that obtained through the creation of trust structures.

3.2 Recognition of Trusts

Even though trusts are largely used in common-law legal systems, the Spanish legal system does not recognise or regulate the trust institution, and no civil or tax law special provisions on this institution have been put in place.

Moreover, the Spanish civil system does not provide for the possibility of having dual ownership, formal/legal or beneficial/economic, of an asset or a right.

Spain has not ratified the Hague Convention, on the Law Applicable to Trusts and on their Recognition, in force since 1 January 1992, which specifies the law applicable to trusts and governs their recognition in the countries that have signed this convention.

Obligations Relating to Trusts

Only certain regulations, related to the obligation to provide the Spanish tax administration with information on assets deposited abroad and the updating of regulations regarding the combating of money-laundering and terrorist-financing, consider the existence of this legal institution and attach certain legal consequences to the relationships created under a foreign trust, eg, to impose reporting obligations (for anti-money laundering and tax purposes) on Spanish trustees that manage assets held by a trust and/or on Spanish resident settlors, trustees and beneficiaries in relation to both formal and beneficiary ownership of assets held by a trust.

Additionally, certain double taxation treaties (DTTs) signed by Spain specifically recognise the existence of trusts (eg, a DTT signed with Australia, Canada, United Arab Emirates, United States, New Zealand, Singapore, Turkey and the United Kingdom). In particular, the Spain-UK DTT includes trusts in its general definition of person and recognises eligibility for the benefits of the DTT to certain items of income obtained by trusts. To date, the Spanish General Directorate for Taxation (GDT) has not issued any interpretation in relation to the Spain-UK DTT provisions related to trusts.

Therefore, to date, there is no reliable legal/tax framework that makes it possible to ascertain the legal/tax position in Spain of the settlor, trustees and/or beneficiaries of foreign trusts.

3.3 Tax Considerations: Fiduciary or Beneficiary Designation

Despite the lack of recognition of trusts in Spain, there is a certain administrative and academic doctrine that can be used to establish general guidelines on the approach that the STA might take regarding the tax treatment of trusts under Spanish tax law for the purposes of PIT, NRIT, WT and IGT.

It should be noted that rulings containing such guidelines do not describe thoroughly the legal relationships created under the trust and therefore cannot be directly relied upon to ascertain the tax treatment applicable to other trusts. Moreover, tax effects must be analysed on a case-by-case basis considering the wide range of legal relationships that, according to experience, can be created under a trust.

Administrative Doctrine

The main tax effects of the legal relationships created under a trust in each of the Spanish taxes mentioned in this section can be drawn from the administrative doctrine available to date:

- as a general principle to be considered when dealing with the taxation of trusts, it must be highlighted that the GDT disregards the existence of the trust for tax purposes.

According to its interpretation, since the trust cannot be the subject of rights and obligations, it must be considered as tax-transparent in Spain;
- transactions carried out under the trust are deemed to be arranged directly between the settlor and the beneficiary; and
- according to this approach, in transactions carried out between the settlor and the beneficiary, the trustee, as a mere fiduciary deemed ineligible to participate, would not obtain any more income than they would receive as a manager of the trust.

Tax Implications
Considering the uncertainty surrounding the tax treatment of trusts in Spain, it is highly advisable to carry out an analysis of the relations created under the trust and clarify tax implications arising therefrom prior to entering into any trust involving Spanish tax residents or assets/rights located/to be exercised in Spain.

As regards the tax implications of unit-linked insurance contracts, neither the policy holder nor the beneficiaries are subject to PIT on the income arising from the assets underlying the insurance policy, provided that certain conditions are met (ie, essentially, the management of the underlying assets remain with the insurance company).

As long as unit-linked life insurance policies do not have surrender value during the contract term (eg, if an irrevocable designation of beneficiary had been made), they may not be subject to WT. However, this tax treatment is currently under review and certain territories (eg, Basque Country) have already implemented measures to tax the underlying assets in the hands of the policy-holder.

For IGT purposes, transfer of the underlying assets from the policy-holder to the beneficiaries is deemed to take place when the contingence occurs.

3.4 Exercising Control over Irrevocable Planning Vehicles
The beneficiary of a unit-linked insurance policy may be irrevocably designated.

In such cases, assets may not be subject to WT, either in the hands of the policy-holder or in the hands of the beneficiaries. However, this tax treatment is currently under review and certain territories (eg, Basque Country) have already implemented measures to tax the underlying assets in the hands of the policy-holder.

4. Family Business Planning

4.1 Asset Protection
Although Spanish law establishes measures to protect the assets of minors or disabled individuals, it does not recognise legal institutions that are familiar to common-law practitioners such as trusts, which extract assets from the economic sphere of an individual, in favour of third parties (typically, descendants) to protect them from potential liabilities incurred by that individual.

Consequently, the main mechanism of asset protection in Spain is the incorporation of family holding companies. Certain elements must be taken into account when structuring these vehicles, depending on the nature of the assets to be contributed and the structure of the family (eg, the number of family branches, descendants, etc). These are:

- the corporate structure adapted to the family;
- adequate tax planning of the vehicle and the contribution of the relevant assets;
- succession provisions adapted to the structure of the family company and business; and
- regulation of the operation and governance of the family holding company and the incorporation of future generations into the family business, through the execution of family shareholders.

It is important to highlight that a relevant measure of asset protection is the marital-property regime applicable upon marriage. In Spain, the community of property regime (*régimen de gananciales*) entails that liabilities incurred by the spouse of an individual may potentially affect the assets of that individual. Thus, it is relevant that, in those territories in Spain where the separate heritage regime (*régimen de separación de bienes*) is not applied by default, spouses opt to apply for it in the form of the relevant matrimonial property arrangement public deed (*escritura de capitulaciones matrimoniales*).

Finally, Luxembourg and Irish insurance companies have an asset-protection system, which combines effective ownership of assets by the insurance company with a special privilege for policy-holders, which makes the use of unit-linked insurance policies attractive from an asset-protection perspective.

4.2 Succession Planning
Succession-planning strategies for family businesses entail the use of holding companies which allow family groups to combine tax efficiency (see **1.1 Tax Regimes**) upon transfer of wealth and control to new generations with an adequate definition of the optimal corporate governance structure.

Additionally, considerations regarding asset protection (see **4.1 Asset Protection**) and transfer of partial interest (see **4.3 Transfer of Partial Interest**) will also be considered for succession-planning purposes.

4.3 Transfer of Partial Interest

Generally, when a partial interest is transferred either inter vivos or mortis causa, the value to consider from a tax standpoint is the market value, determined on the basis of the value of the underlying assets.

The value of the usufruct rights is determined on the basis of an objective valuation rule, established by law, which takes into consideration the value of the underlying assets and the duration of the usufruct right. The value of the bare ownership (*nuda propiedad*) is calculated as the difference between the value of the usufruct and the total value of the underlying assets.

It often happens that, in gratuitous transfers of the partial interest, only the bare ownership is transferred, and the donor retains the lifelong usufruct.

In onerous inter vivos transfers of a partial interest, ie, for consideration, the transferor will be subject to PIT for the capital gain obtained, without the application of any tax allowance.

With regard to gratuitous inter vivos transfers of a partial interest over a company (provided it complies with requirements to benefit from the tax exemptions applicable to the transfer of family businesses) to certain beneficiaries belonging to the close family (ie, direct descendants and/or spouses), subject to certain requirements, a tax deferral in the PIT of the transferor (which will entail that the acquirer assumes the acquisition cost of the transferor) may be achieved. Subject to the same requirements, the acquirer will also enjoy a tax bonification in IGT (in the territories in which it is not almost totally exempt, such as Madrid and Andalusia).

The taxation criteria applicable to inheritance of a partial interest are also applicable to transfers, but with fewer requirements.

5. Wealth Disputes

5.1 Trends Driving Disputes

Arbitration and mediation are alternative ways to solve wealth disputes, requiring less time and money than the judicial proceedings of ordinary jurisdictional bodies.

Although these methods are broadly regarded as applicable to succession disputes under Spanish law, they are currently not commonly used as a way to solve disputes relating to an inheritance. However, this trend may change in the future with the increased incorporation of arbitration clauses in testaments, together with non-contest clauses (*cautela Socini*).

5.2 Mechanism for Compensation

Spanish Succession Law limits the amount of assets an individual can freely dispose of during their lifetime or upon their death. For the most part, the assets of the relevant individual have to be bequeathed to their forced heirs (the relevant percentage varies according to whether they are descendants, ascendants or spouses – see **2.3 Forced Heirship Laws**).

To this effect, there are measures in Spanish law to protect forced heirs against disposals made by an individual (whether it be during the individual's life or at the time of death) that diminish their inheritance. The heirs may initiate actions to contest any such unlawful disposals and claw back the assets transferred to the detriment of the inheritance of forced heirs.

6. Roles and Responsibilities of Fiduciaries

6.1 Prevalence of Corporate Fiduciaries

As explained in **3.2 Recognition of Trusts**, trusts are not recognised in Spanish legislation, nor is the institution of the trustee, or the other similar institutions with fiduciary responsibilities that are widely used in common-law jurisdictions.

Furthermore, although there are institutions that operate in a similar manner to fiduciaries (such as agents), they do not have the same legal nature attributed to fiduciaries in common-law jurisdictions.

Under Spanish regulations, institutions similar to fiduciaries are regulated by the Spanish Civil Code as a way to transfer assets in the context of mortis causa transfers (fideicommissary substitution/*sustitución fideicomisaria*). Under a fideicommissary substitution the fiduciary, or trustee, acquires the property as designated by the testator in their will and is obliged to manage and keep the assets and to transfer part or all, depending on the will, of the inherited assets to a third person (the fideicommissary).

However, the use of these institutions for wealth and estate planning is not common practice in Spain, just as corporate fiduciaries are not an institution that is prevalent in Spain.

6.2 Fiduciary Liabilities

There are no fiduciary liabilities because corporate fiduciaries are not an institution that is prevalent in Spain.

6.3 Fiduciary Regulation

There is no fiduciary regulation because corporate fiduciaries are not an institution that is prevalent in Spain.

6.4 Fiduciary Investment

There is no fiduciary investment because corporate fiduciaries are not an institution that is prevalent in Spain.

7. Citizenship

7.1 Requirements for Domicile, Residency and Citizenship

In general terms, foreigners other than European Union nationals can stay in Spain for 90 days every semester with or without a visa, depending on their nationality.

Non-lucrative Residency

Furthermore, non-lucrative residency can be granted to those who have sufficient financial capacity for their expenses – as determined by the government from time to time – during the period they wish to reside in Spain, without the need to develop any work or professional activity in Spain, and if they have public or private health insurance with an insurer authorised to operate in Spain. EU nationals are also required to have sufficient financial capacity but the minimum amount established by the applicable regulations does not apply to them, as this requirement is deemed to be met as long as the EU national does not become an economic burden to the Spanish authorities.

Acquisition of Citizenship

The acquisition of citizenship is mainly achievable by legal residence in Spain, ie, ten continuous years, which is the general term required. However, in some cases the period of residence required is reduced, such as the two-year term required for nationals of Ibero-American countries, Andorra, the Philippines, Equatorial Guinea, Portugal and people of Sephardic origin, whatever their nationality. Also, only one year of residence is required for those who were either born in Spanish territory, have been married for one year to a Spaniard or who are a widow/er of a Spaniard.

It is possible to acquire Spanish citizenship by naturalisation at the discretion of the government by royal decree, after assessing the concurrence of exceptional circumstances. There is, in addition, the possibility of acquiring Spanish citizenship by what is called "acquisition by option", which is a benefit that the legislation offers to foreigners in certain circumstances (eg, those whose father or mother was Spanish and born in Spain).

Impact of COVID-19

It is important to bear in mind that the situation generated by the COVID-19 pandemic is having an undeniable impact on those cases where entry into or exit out of Spain is required to become resident in Spain, or to lose said residence. This is due to the confinement imposed not only in Spain but in third countries.

7.2 Expeditious Citizenship

Although there is no expeditious acquisition of citizenship, in some cases the residence permit can be expedited under the so-called Entrepreneurs Law. These golden visas are granted to, among others:

- foreigners who invest, to a value equal to or greater than EUR2 million in Spanish public debt securities or to a value equal to or greater than EUR1 million, in shares or social participations of Spanish companies or bank deposits in Spanish financial institutions;
- foreigners who prove the acquisition of real estate in Spain with an investment of EUR500,000 or more without liens or charges over the real estate acquired;
- foreigners who submit a business project to be developed in Spain which is considered and accredited to be of general interest because of the innovative nature of the project or the investments provided. This residency permit will also be granted to those who plan to enter and stay in Spain for a period of one year in order to carry out procedures to develop an entrepreneurial activity. This is a Residence Visa for Highly Qualified Professionals (TAC); and
- foreigners who travel to Spain within the framework of an employment, professional or professional training relationship, with a company established in Spain or in another country.

Spouses and Children

These permits are extended to the spouse and children under 18 years of age, or of legal age who are not able to provide for their own needs due to their state of health, when they meet or accompany the applicants. Consequently, they may request, jointly and simultaneously or successively, a family residence visa, after proof of compliance with the requirements indicated here.

Impact of COVID-19

Obviously, COVID-19 has restricted the movement of people between countries and forced confinement for long periods of time inside territories, as well as the limitation of business activities and, as a result, compliance with these requirements to become a Spanish citizen is much more difficult at present and the process of obtaining citizenship has been substantially affected.

8. Planning for Minors, Adults with Disabilities and Elders

8.1 Special Planning Mechanisms

In order to protect minors and adults with disabilities, Spanish regulations provide what are called "protected patrimonies" for people with disabilities.

The objective of this regulation is to favour the constitution of these patrimonial funds linked to satisfying the vital needs of people with disabilities. In this respect, a series of measures has been adopted to favour gratuitous contributions to protected patrimonies, reinforcing the tax benefits in favour of persons with disabilities.

8.2 Appointment of Guardian

Parents may appoint guardians or conservators for their children in case of their early demise or the personal disability of any child. However, the Spanish Civil Code determines that it is the responsibility of the public prosecutor's office to supervise guardianship, foster care or custody of minors and that the courts are not bound by the parents' will when appointing a guardian. Furthermore, guardians will be subject to court scrutiny and approval for some special management deals.

8.3 Elder Law

The Spanish Civil Code has traditionally established a number of measures on the basis of which family members must assist their ascendants economically and take care of them in the event of their disability.

Spanish law, pursuant to the terms of the Dependency Law (*Ley de Dependencia*) also provides for the granting of public assistance (including financial aid) to individuals who take care of a dependent family member.

Finally, it is relevant to point out that Spanish law provides certain measures that individuals can adopt to protect themselves in preparation for future situations of incapacity or terminal illness, by means of the granting of documents which are commonly known as "self-protection arrangements". These documents permit the appointment of representatives who will manage the assets of the individual in any of the situations referred to here.

These documents are filed with the Civil Registry and are taken into account by the relevant judges as part of incapacitation proceedings.

9. Planning for Non-traditional Families

9.1 Children

Spanish legislation treats all biological children equally, whether or not they are born of married parents, as well as adopted children, except for the inheritance of Spanish peerages or nobiliary titles, which might require a person to be born in wedlock.

9.2 Same-Sex Marriage

Same-sex marriage is fully recognised in Spain, with equal rights.

Domestic partnerships are also recognised in Spain, with similar rights to marriages, apart from specific widow-inheritance rights and some family subsidies.

10. Charitable Planning

10.1 Charitable Giving

Spanish tax legislation provides for a special tax regime applicable to foundations, associations of public use and other non-profit-making organisations that meet certain conditions. This regime provides for a total exemption in relation to contributions and donations received by such entities and for income from business, provided that they are connected with its general interest purpose. Non-exempt income is taxed at a rate of 10% in the case of foundations and associations of public use, and at 25% in the case of other partially exempt entities.

Together with this special regime, tax credits in respect of donations made to certain qualifying foundations are available for individuals and corporations for income tax purposes, together with the exemption of capital gains arising for the donor as a result of the donation of the asset.

Individuals may benefit from a tax credit of 75% of donations up to EUR150. Higher amounts may benefit from a 30% tax credit, rising up to 35% in the case of recurrent donations made to the same organisation. Tax credits may not exceed 10% of the taxpayer's personal taxable income.

For corporations, there is a 35% tax credit on the amount of the donation/contribution, capped at 0.1% of the company's turnover. Recurrent donations made to the same organisation may benefit from increased tax credits of up to 40%.

10.2 Common Charitable Structures

Spanish charitable entities aim to promote private investments in general interest activities. They are therefore compelled to

use the contributions received and the proceeds obtained in activities related to their statutory purpose.

In the case of foundations/public-use associations, founders, patrons, trustees, associates, statutory representatives or members of the organisation (or their relatives up to the fourth degree) can neither be the main beneficiaries of the activities carried out by the foundation or association, nor receive a salary for their work. In the case of dissolution, funds must be allocated to another organisation which is subject to a similar regime or to a public non-foundational organisation pursuing general interest objectives similar to those set out in the by-laws of the organisation being dissolved.

Charitable structures are used in Spain in cases where high net worth individuals who are committed to activities of general interest wish to devote a portion of their estate to the performance of such activities. It is accepted that the funds used for such purposes are irrevocably drawn out of their estate.

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ABOGADOS

Trends and Developments

Contributed by:
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Political Environment
Following the November 2019 elections and after a long period of political uncertainty resulting from the struggle to form a stable government, the centre-left and left-wing parties finally reached a coalition agreement.

From a tax perspective, this political turn has led to a focus on tax hikes for high-earners and big companies.

In addition, the left-wing party included a proposal to create a tax on wealth that was homogeneously applicable to all Spanish regions (to prevent tax dumping between them). It was to be a progressive scheme – starting at 2% for net wealth over EUR1 million – and concentrating mostly on the revenue of the 1,000 richest people.

Even though, at present, the coalition seems to have dropped the proposal in favour of the new wealth tax, other actions aimed at achieving a minimum level of taxation in the different Spanish regions (ie, Wealth Tax, or WT, and Inheritance and Gift Tax, or IGT) cannot be ignored.

Additionally, changes in the government of the Spanish regions may also be followed by changes in the local WT and IGT regulations and, as a consequence – tax increases (ie, as already happened with the Catalonian IGT) and/or practical restoration of such taxes in territories where wide tax benefits are recognised (eg, Madrid) – could be implemented.

The Impact of COVID-19 on Spanish Tax Rules
Spain is one of the EU countries that has suffered really badly from the economic impact of COVID-19, and the country has seen a record contraction of the GDP.

The Spanish government, in line with the recommendations of the Bank of Spain, announced a medium-term plan with adjustment measures to offset the high debt that the COVID-19 health crisis will leave behind.

Among these measures, fiscal adjustments, which include raising taxes, have been proposed. Even though measures are specifically focused on raising the rates of value-added tax and special taxes – particularly environmental levies, where Spainstill lags behind other EU countries – and on fixing existing loopholes in corporate tax, it is also envisaged that taxes on high net worth individuals and corporations will be increased. However, in accordance with the requirements of the Bank of Spain and the European authorities, the tax burden will be increased for almost all taxpayers, as the aim is to reduce the existing deficit.

The new tax on wealth mentioned here was being considered as part of the tax measures to overcome the economic impact of the pandemic.

The General Tax Control Plan 2020
Every year, the Spanish tax agency (STA) publishes some general guidelines which indicate where the focus will be in the tax audits to be conducted that year.

Specifically, in the private wealth area, the following general measures and guidelines proposed by the STA, in order to prevent and control tax fraud, should be noted.

Corporate schemes
The STA is planning to strengthen its lines of action to identify the undeclared income and hidden assets of high net worth individuals. Particular emphasis will be placed on assets located abroad and also on the use of certain corporate schemes (with different levels of shell companies) with the purpose of hindering income/assets transparency.

Additionally, in line with the use of shell companies, another focus of the STA's plan to prevent tax fraud will be the investigation of corporate structures whose main economic purpose is to avoid/delay the payment of personal income tax (PIT) by individual taxpayers whose tax has been irregularly reduced by having some income taxed at a corporate level (at lower tax rates).

Transfer of tax residence
The STA will also focus on the investigation of specific forms of tax fraud deriving from the sham transfer ("simulation") of tax residence outside Spanish territory and even within Spanish territory (between autonomous communities); as well as the verification/investigation of all those fraud schemes carried out to reduce the tax burden from assets in Spain, or due as a result of possession of those assets.

Cryptocurrency transactions
Another specific line of action will be the monitoring of transactions involving cryptocurrencies. The STA will pursue the correct taxation of these transactions as well as information on the origin of the funds used to acquire the cryptocurrency.

Income tax for non-residents
The STA will also intensify the control of any income obtained by non-tax resident artists and sportsmen and women who carry out activities in Spanish territory, given that such activities may be subject, depending on the case, to income tax for non-residents (NRIT).

Tax Residence Conflicts/Disputes
Tax residence disputes may arise between the STA and the tax authorities of any other state, a circumstance that occurs when a tax residence conflict occurs as a result of two countries considering themselves entitled to levy tax. This conflict may even occur between the different administrative entities of the STA, as happens when a conflict of tax residence arises between two autonomous communities (with regard to taxation involving corporate income tax, PIT, WT and IGT).

The criteria for determining the residence in both cases, whether internationally or within Spain (between autonomous communities) are not the same. In the first case, it is important to consider/comply with the provisions of any double taxation treaties (DTTs), if they exist, and/or the internal regulations of each jurisdiction. In the second, the criteria are established in Law 22/2009. However, there is a common denominator that must be observed in all cases: the relevance of the evidence/proof available regarding tax residence in a given jurisdiction or territory for subsequent submission to an administrative procedure or judicial process when a dispute arises in this regard.

It should be noted that COVID-19 will play a role in this kind of conflict, due to the lockdown that prevented the movement of people between different territories. In this respect, Spain (in general) and the STA (in particular) have not taken on board the OECD recommendations to avoid conflicts that may arise from the restriction of movement due to COVID-19. In particular, it has to be noted that Spain has only ruled (in Order SND/421/2020 of 18 May, adopting measures relating to the extension of stay and residence and/or work permits and other situations of foreigners in Spain, and in application of Royal Decree 463/2020 of 14 March, declaring the state of emergency for the management of the health crisis caused by COVID-19) on the effect of COVID-19 from the perspective of those who, being tax residents in Spain before the pandemic, have not been able to return or remain in the country during the lockdown. In this sense, Spain has guaranteed them that they are still considered to be Spanish tax residents. Nothing has been established or ruled about the other situations that may arise, although a binding criterion has just been published in which Spain expressly states that this period of confinement will count for the purposes of tax residence. This administrative doctrine confirms that Spain deliberately deviates from OECD criteria when it comes to losing "new" potential taxpayers.

The implications of conflicts of tax residence (from the perspective of taxation in Spain) are of great importance, both in terms of tax debt – for PIT and for WT, insofar as those involved could be subject to tax in Spain on worldwide income and property – and the obligation to provide periodic information.

In such situations, real problems of double taxation, understood as those resulting from the demand for tax in both jurisdictions, are common because the tax authorities of each territory consider the same taxpayer to be resident in their respective territories. This may occur in accordance with the parameters of the DTT in force and/or its internal regulations, and even despite the DTT. Although there may be specific clauses in the DTTs signed to resolve conflicts of tax residence, in practice it quite frequently happens that taxpayers find themselves in an unfortunate situation in which they are considered to be simultaneously resident in two states, at least for a certain period of time.

In this respect, there is a circumstance which is both impossible to accurately predict and extraordinarily relevant, since it will undoubtedly be decisive for the tax residence of many individuals. As mentioned previously, we are referring to the COVID-19 pandemic currently being experienced at world level and the impact it has had and will surely continue to have in the near future, in terms of restrictions on the movement of people between different territories/countries and border closures, even within the EU.

Given this new situation, and the fact that it is very possible that this will extend over time, there will be people whose tax residence will be questioned mainly on the basis of the criterion of staying in a certain territory (determined by reference to the number of days of physical presence). This is the case even if the reason for this "new obligation" to stay in a country or territory is completely beyond their control and has been imposed on them by the authorities. This scenario will likely force a review of the legal position of many high net worth individuals before the STA, as well as between those authorities that may come into conflict over that position.

Other KeyAreas
Lastly, it is important to keep in mind the growing importance of taxation, both PIT and NRIT, of European and/or non-European clients who become tax residents in Spain. As a result of the situation, relevant issues have arisen regarding IGT and WT (due to the problems caused by the legislation in force in the different Spanish regions which distinguishes between the status of residents and non-residents in Spain). Litigation in this field is likely to increase in the coming months and/or years.

Additionally, as a result of the situations described here, important new controversies have arisen regarding the IGT and the WT, due to the different legislation in force in the Spanish regions. Tax benefits set forth in these pieces of legislation are strictly linked to Spanish tax residence, without consideration for the new family arrangements that may occur; especially in the situation that COVID-19 is forcing on us.

For this reason, litigation in this field is likely to increase in the coming months and/or years.

To conclude, we believe that succession planning (through, among other mechanisms, Law 650/2012) will be more relevant than ever.

BEPS/ATAD
The Spanish tax administration has consistently shown a high level of commitment to the implementation of the measures proposed in the context of base erosion and profit shifting (BEPS) and the Anti-Tax Avoidance Directive (ATAD).

Further developments are currently being discussed in the Spanish parliament to implement measures contained in Directive 2016/1164 as amended by Directive 2017/952 (ATAD I and ATAD II). A draft bill published last year, now pending due to the political situation, addresses the amendments that need to be implemented in the short term (ie, exit tax and Controlled Foreign Corporation, or CFC, rules) and refers to future modifications of the tax rules applicable to hybrid mismatches and the deductibility of financial expenses.

The objective of the government is to implement the measures agreed in BEPS/ATAD fully and promptly.

Administrative Co-operation in Direct Taxation in the European Union
Legislation addressing the implementation of the EU Directive on mandatory disclosure and exchange of cross-border tax arrangements (the so-called DAC 6) will presumably be implemented as of 1 January 2021.

Under DAC 6, taxpayers and intermediaries are required to report cross-border arrangements that fall within the definition of the so-called "hallmarks" (in some cases, only if the "main benefit test", or MBT, is satisfied). Some of the hallmarks are:

- the taxpayer undertakes to comply with a confidentiality condition (MBT);
- the intermediary is entitled to a fee that is contingent on the amount of the tax advantage (MBT);
- standardised documentation must be used (MBT);
- income is converted into categories that are taxed at a lower level (MBT);
- the arrangement may have the effect of undermining the reporting obligation; and
- the arrangement aims to make the beneficial owners unidentifiable.

However, since 25 June 2018 (the date that DAC 6 came into force), reports must also retrospectively cover the arrangements.

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