



Setting Up a Business in Spain

The foreign investor's guide
to navigating complexity in
this exciting jurisdiction



Contents

Country profile

Why invest in Spain?

How to do business in Spain

Entry options for foreign investors

- Subsidiary
- Permanent establishment or branch

Taxation

- Corporate income tax
- Income tax
- Value added tax
- Stamp duty
- Tax treaties
- Tax credits and incentives
- Spanish foreign securities holding company
- Customs policy
- Free trade zones

Employment and labor regulation

- Social security system
- Termination and severance payments
- Foreign employees
- Public holidays
- Annual leave
- Maternity and paternity leave
- Business hours
- Minimum wage and overtime
- Equality legislation

How CSC can help you invest in Spain

- Who we are
- What we can do



Country profile

Part of the Iberian Peninsula, Spain is a large and important global economy with a dynamic approach to business that proves attractive to overseas investment. The country borders France to the north and Portugal to the west, while Africa is only nine miles away at its nearest point across the strait of Gibraltar to Morocco.

The country has a warm and dependable climate, a rich cultural heritage, and a well-developed tourism industry, making it a popular destination for foreign visitors. Its geographic position provides access to European and African markets, while its linguistic and cultural affinity with Latin America means it has strong business links with that region as well.

From the 1950s onwards, Spain's economy began to modernize as widespread agriculture was gradually replaced by industrial production, international trade, and tourism. Membership of the EEC—which was later absorbed into the E.U.—led to a sustained rise in foreign trade and investment, as well as the development of infrastructure across the country.

The global financial crisis of 2008-09 had a significant impact on the Spanish economy, with the country's real-estate and banking sectors hit particularly hard in the wake of a credit-fueled property investment boom started earlier in the decade. However, a period of austerity and economic reforms saw Spain return to growth in the 2010s.

Today, the Spanish economy is advanced, and to a large degree, dependent on services that represent about 75% of all business activity. It has a relatively young and well-educated workforce and attracts skilled migrant workers from Europe and around the world. It has excellent infrastructure, relatively low labor costs, and a strong innovation culture—not to mention a business-friendly regulatory climate and the fourth-largest consumer market in the E.U.

A number of multinational car manufacturers have set up operations in Spain in recent years, for

example Ford® and Volkswagen. Other key inward investors include online retailer Amazon®, engineering business Bosch, and South Korea's LG Electronics. The technology company IBM has set up an artificial intelligence research program in Barcelona, while telecommunications firm Vodafone has set up a 5G research and development center in Madrid.

According to the United Nations Conference on Trade and Development (UNCTAD), flows of foreign direct investment (FDI) into Spain were worth USD 17.4 billion in 2019¹, before falling back during the COVID-19 pandemic. The stock of FDI stood at USD 819.7 billion in 2021.

The countries responsible for the greatest levels of investment into Spain in 2021 were France (26%), the U.S. (15%), U.K. (11%), and Australia (9%)². The sectors receiving the greatest levels of FDI were financial and insurance services (23%), information and communication (23%), manufacturing (14%), and construction (8%). Out of all European nations, Spain ranked fourth in terms of FDI projects in 2021³.



¹ Source: unctad.org/system/files/official-document/wir2022_en.pdf

² Source: comercio.gob.es/InversionesExteriores/Publicaciones/Historico%20de%20boletines/Ultimas%20publicaciones/Flujos-Inversion-Directa-Ultima-Publicacion.pdf

³ Source: assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/attractiveness/ey-attractiveness-survey-europe-may-2022.pdf

Why invest in Spain?

A pro-business culture

Spain's economic success has been built on the political and cultural promotion of entrepreneurship and business achievements. The country has made efforts to simplify its tax system and bureaucratic procedures to reduce any friction associated with operating.

An open economy

International trade has been a cornerstone of the Spanish economy for the past 50 years. As well as a thriving tourism sector, Spain welcomes international investors and workers.

High skills and low costs

Spain's workforce is young compared with many of its European peers. In addition to a high level of skills, education, and diversity, the country's labor costs are competitive in relative terms, while employment legislation has been reformed to make the process of hiring staff more flexible and less burdensome on employers.

Access to global markets

Spain's location gives it significant advantages in terms of international trade: E.U. membership means companies based in the country have frictionless access to nations in the European Economic Area, while it is the closest E.U. member state to Africa. Meanwhile, language and cultural links mean it has a thriving economic relationship with all the major Latin American markets.

Support for innovation

Over recent years, the Spanish government has made a concerted effort to support business innovation with a regime that includes tax breaks, grant funding, and incentives for the creation of innovation clusters and research facilities.

A base for the world's biggest multinationals

Spain's location, business culture, infrastructure, workforce, and addressable market have attracted major companies from all over the world. Many globally established manufacturers have plants in the country. It's also home to numerous production facilities and research centers set up by well-known technology and telecoms companies.

Spain at a glance



Capital
Madrid



Official languages
Spanish (Castilian)
plus several co-official languages, including Aranese, Basque, Catalan, Galician, and Valencian



Currency
Euro (€)



Population
47.6 million (2022)⁴



GDP
USD 1.4 trillion (2022)⁵



Area
195,364 square miles



GDP per capita
USD 29,413 (2022)⁶



Swiss Standard Time
GMT +1



Telephone country code
+34



Key cities
Madrid, Barcelona, Valencia, Seville, and Bilbao



⁴ Provisional data from INE: ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736176951&menu=ultiDatos&idp=1254735572981

⁵ Source: countryeconomy.com/gdp/spain

⁶ Source: countryeconomy.com/gdp/spain

How to do business in Spain

Entry options for foreign investors

There are a number of ways that foreign companies can start doing business in Spain. In general, expert advisers will be able to offer guidance on the most suitable vehicle, depending on specific requirements and goals. The main structure options are:

- Subsidiary:
 - » Corporation (SA)
 - » Limited liability company (SL)
- Permanent establishment or branch

Before starting operations, foreign investors might wish to start carrying out market analysis in Spain through a representative office, which is not subject to corporate income tax.

Corporation

A corporation—known in Spain as a sociedad anónima (SA)—is generally aimed at larger organizations. The requirements for setting up an SA include having a minimum share capital stock of EUR 60,000 (USD 66,000), with marketable shares or debentures that can, in most cases, be freely transferred. SAs face further, more stringent, regulatory requirements than other company structures, in particular with regard to financial reporting and audits.

Limited liability company

A limited liability company, known as a sociedad limitada (SL), is typically seen as a suitable structure for businesses. An SL must have a minimum share capital of EUR 3,000 (USD 3,300). It doesn't issue marketable securities, although any share transfers should be publicly recorded. SLs generally face less onerous reporting requirements.

Types of governing bodies for subsidiaries

Directors of Spanish companies can be of any nationality, but if they are non-resident, they must apply for a Spanish identification number. Spanish entities may be governed by a sole director, joint directors, or several directors alongside a board of directors with a minimum of three members.

Permanent establishment or branch

When a foreign entity starts operations in Spain, it can either be a permanent establishment or a branch, which is a permanent establishment but requires more formalities for its incorporation. These steps are similar to the formation of a company (see above), in particular with regard to registration with tax authorities, although no capital is required. The branch does not have a separate legal identity, although it should have a managing representative. This can be a non-resident—in which case they need to appoint a local tax representative who must be resident in Spain. There's no limit to the parent company's liability for the branch.



Taxation

Corporate income tax

Businesses that were incorporated under Spanish law, have a registered office in Spain, or have Spain as their place of effective management, are liable for Spanish corporate income tax (CIT). This is currently imposed at a rate of 25% on taxable income. There is an initial 15% CIT rate for certain newly formed companies in their first fiscal year. In general, income generated outside Spain is not liable for Spanish CIT.

Income tax

Personal income tax is charged progressively at rates ranging from 19% to 47% on taxable income from employment, rent, dividends, and capital gains, among other sources. Spain also has a wealth tax that applies to individuals with net assets above a certain level. The wealth tax rate ranges from 0.2% to 3.5%.

Value added tax

The standard rate of value added tax (VAT) in Spain is 21%, although reduced rates of 10% and 4% apply to certain goods. The 10% is imposed on food and medicines, for example, while the most basic foodstuffs, newspapers, magazines, and books attract a 4% charge. Some services, including healthcare, education, and certain financial transactions are exempt from VAT.

Stamp duty

At the national level, transfers of real estate incur a 6% stamp tax, while corporate transactions are taxed at 1%. Some of Spain's autonomous communities, however, impose a higher rate of both taxes.

Tax treaties

Spain has 90 tax treaties, or double-taxation agreements, currently in force.

Tax credits and incentives

The Spanish research and development (R&D) and technological innovation tax credit provides a credit of 25% of expenses incurred on R&D within a specific period. For technological innovation, the credit rate is 12%. There are also tax credits available on some forms of artistic business activities, including film production and live performances, as well as credits for hiring workers with disabilities.

Spanish foreign securities holding company

The Spanish foreign securities holding company regime—entidad de tenencia de valores extranjeros (ETVE)—allows for favorable tax treatment of dividends and capital gains arising from active foreign subsidiaries. Expert advice should be sought when considering whether or not to take advantage of the ETVE system. This regime is used for centralizing investments throughout Europe and Latin America.

Customs policy

As a member of the E.U., Spain is part of the bloc's customs territory and as such, no duties or tariffs apply to imports from, or exports to, other member states. Imports from outside the E.U. are liable to duties at the rates set out by the E.U.'s Combined Nomenclature rules.

Free trade zones

Spain has a number of free trade zones located at strategically important ports, including Barcelona, Cádiz, Vigo, and Santa Cruz de Tenerife in the Canary Islands.

Employment and labor regulation

Employers should provide workers with the following details before their start date:

- The duration of the employment
- Location of work
- Basic salary and other remuneration details
- Working hours and leave entitlement
- Notice period and any probationary period
- Details of any collective bargaining agreements

Employers can amend these working conditions on certain grounds—for example, for economic or organizational reasons—provided workers are given at least 15 days’ advance notice.

Social security system

Contributions to the social security system are paid jointly by employers and employees. The contribution rates vary among professions and sectors. At present, the maximum employer contribution is about 30% of an office worker’s salary, with an upper contribution limit of EUR 4,495 (USD 4,965) a month.⁷ These contributions entitle the employee to receive allowance from the estate in case of unemployment, illness, or retirement.

Termination and severance payments

Employment contracts can be terminated as part of a collective layoff, on business-related grounds, or disciplinary. Collective layoffs and those related to business or worker performance must follow statutory guidelines in terms of notice periods, consultation with the workforce, and severance payments. Under current rules, for a collective layoff, workers are entitled to 20 days’ salary per year worked, up to a maximum of a year’s salary. Termination on disciplinary grounds requires the employer to provide a written explanation of the dismissal as well as the termination date.

Foreign employees

Citizens of the other 26 E.U. member states have the right to live and work in Spain without having to apply for an employment permit. This right also extends to

workers from non-E.U. European Economic Area (EEA) members Iceland, Norway, and Liechtenstein, as well as to those from Switzerland. Other nationals may need to obtain a visa to come to Spain. The country offers specialist visas to several groups, including foreign investors, entrepreneurs, highly skilled workers, and individuals involved in innovation or scientific research.

Public holidays

The number of public holidays in any given area should not exceed 14 days each calendar year. The dates of public holidays vary considerably from one area to the next, although there are a number of nationally observed holidays including New Year’s Day, Good Friday, Labor Day (May 1), Assumption Day (August 15), and Christmas Day.

Annual leave

Workers are entitled to at least 30 natural days’ paid leave each year. Employers cannot pay them in lieu of this vacation entitlement. Paid leave can also be claimed in certain circumstances, including marriage, serious illness, or death of a close relative. Employees are entitled to at least one and a half days off work each week.

Maternity and paternity leave

Women are entitled to a 16-week paid maternity period when they have a child, a right which was extended to new fathers in 2021. This leave is funded from social security contributions. Employees are also allowed to request more flexible working arrangements to care for their children or other dependent relatives.

Business hours

In Spain, business hours have traditionally run from 9 a.m. to around 7 p.m. or 8 p.m., with a long break—typically two hours or more—in the early afternoon. Some efforts have been made in recent years to standardize the working day along the 9 a.m. to 5 p.m. lines seen elsewhere in Europe, and many offices now follow this pattern.

Minimum wage and overtime

The current minimum wage level in Spain is EUR 36 (USD 39.45) per day, or EUR 1,080 (USD 1,155) per month⁸, depending on how contractual wages are structured. Higher minimum wage levels may be negotiated by separate professional groups. In general, the maximum working week is 40 hours, although this can be averaged out annually. Businesses can pay overtime at an agreed rate or give employees time off in lieu of additional hours worked. Paid overtime should not exceed 80 hours a year.

Equality legislation

Employers in Spain may not engage in discrimination in hiring, promoting, or dismissing workers based on their gender, marital status, age, race, social status, religion or political ideology, or membership of a labor union. Businesses that employ 50 or more people are obliged to develop a plan for promoting gender equality, for example in terms of salaries and career progression.



⁷ Source: taxsummaries.pwc.com/spain/individual/other-taxes

⁸ Source: news.bloombergtax.com/payroll/spain-publishes-2023-minimum-wage#

How CSC can help you invest in Spain

Despite the country's open, international nature and business-friendly climate, newcomers may find Spain's company registration, labor market, and tax systems difficult to navigate. Before entering the Spanish market, foreign investors should rely on professional advice to understand these complex matters. As such, working with a trusted local partner is essential.

Who we are

CSC provides knowledge-based solutions for every phase of the business life cycle, helping businesses form entities, maintain compliance, execute transaction work, and support real estate, M&A, and other corporate transactions in hundreds of U.S. and international jurisdictions.

We work with some of the world's largest banks and commercial lenders to reduce risk in their lien portfolios, improve their transaction speeds, and create a secure environment for their financial processing needs. We also provide solutions for secure real estate document preparation and recording.

We are the trusted partner for 90% of the Fortune 500®, nearly 10,000 law firms, and more than 3,000 financial organizations. Headquartered in Wilmington, Delaware, USA, since 1899, we are a global company capable of doing business wherever our clients are—and we accomplish that by employing experts in every business we serve.

What we can do

Our team in Spain includes experts specializing in administration services dedicated to serving multinational, private equity, real-estate, and fund clients. We're able to help corporate clients expanding into this exciting economy with a full suite of services from our office in Madrid.



Corporate client services

Operating internationally can be challenging. You need a partner who understands local rules, culture, and customs, and how they affect legal and regulatory requirements. That's where we come in, offering support in terms of:

- Company formation
- Global subsidiary management
- Escrow and Settlement services
- Domiciliation and management
- Accounting and reporting
- Special Purpose Vehicle (SPV) and Legal Administration services
- Payroll services

Private capital and hedge-fund services

We differentiate our world-leading fund services through our geographic spread, domain strength, technology offering, and depth of services, providing expert assistance in the following areas:

- Global treasury management
- Payroll services
- Fund administration
- Investor services
- Company formation
- Domiciliation and management
- Global subsidiary management
- Independent Director and Fiduciary services
- Real estate accounting
- Escrow and Settlement services
- Shadow accounting
- SPV Administration services
- Fund Accounting and Reporting services

Capital markets

As capital markets evolve across the globe, you need a bespoke approach from a service provider with a genuine understanding of how markets are changing. We can help with:

- Company formation
- Domiciliation and management
- Global subsidiary management
- SPV and Legal Administration services
- Escrow and Settlement services
- Accounting and reporting

Private clients

By understanding the importance of long-term relationships built around trust, we aim to truly understand your values. We're your partner to help you protect, preserve, and plan for the future. Our specialties include:

- Family office
- Private and investment funds
- Tax reporting
- Fund formation and liquidation
- Regulatory and Compliance services

July 2023

 cscglobal.com

251 Little Falls Drive, Wilmington DE 19808

Copyright ©2023 Corporation Service Company. All Rights Reserved. The information in this document was produced to the best of our abilities using available references at the time of production. It is subject to change without notice and should not be seen as advice or a recommendation. For this reason, no warranty and no representation either expressed or implied are made that the information and opinions in this document are accurate, complete or up to date. CSC disclaims, without limitation, all liability for any loss or damage of any kind, including direct, indirect, special, incidental or consequential damages, losses or expenses which might be incurred as a result of using or relying on the information in this document. We recommend seeking appropriate independent professional advice before taking any action. Readers may not reproduce or sell this information and materials in whatever form and by whatever means without the express prior written consent of CSC.