

# Tax Information for Spanish Tax Residents

## ➤ Introduction

This document provides a brief outline of the various Spanish taxes which may apply to bondholders investing in a Prudential International bond whilst being resident in Spain for tax purposes.

It is not intended to be a comprehensive guide to the Spanish tax system and should not be relied upon to determine your tax liabilities in Spain. Any tax payable will depend on your individual circumstances and we recommend that you seek professional tax advice prior to making any financial decisions.

The information below is based on our understanding of Spanish tax legislation as at January 2017 and is subject to change at any given time.





## › Tax Residency

Tax residency arises in Spain where:

1. An individual spends more than 183 days per year residing in Spain.
2. Spain is an individual's base for their economic activities.
3. Spain is an individual's main place of living (i.e. family home is in Spain and children attend school in Spain).

The Spanish tax year runs from 1 January to 31 December.

There are two distinct categories of tax residency in Spain which may apply to you, namely (i) Special Tax Regime for inbound assignees and (ii) Individual Income Tax.

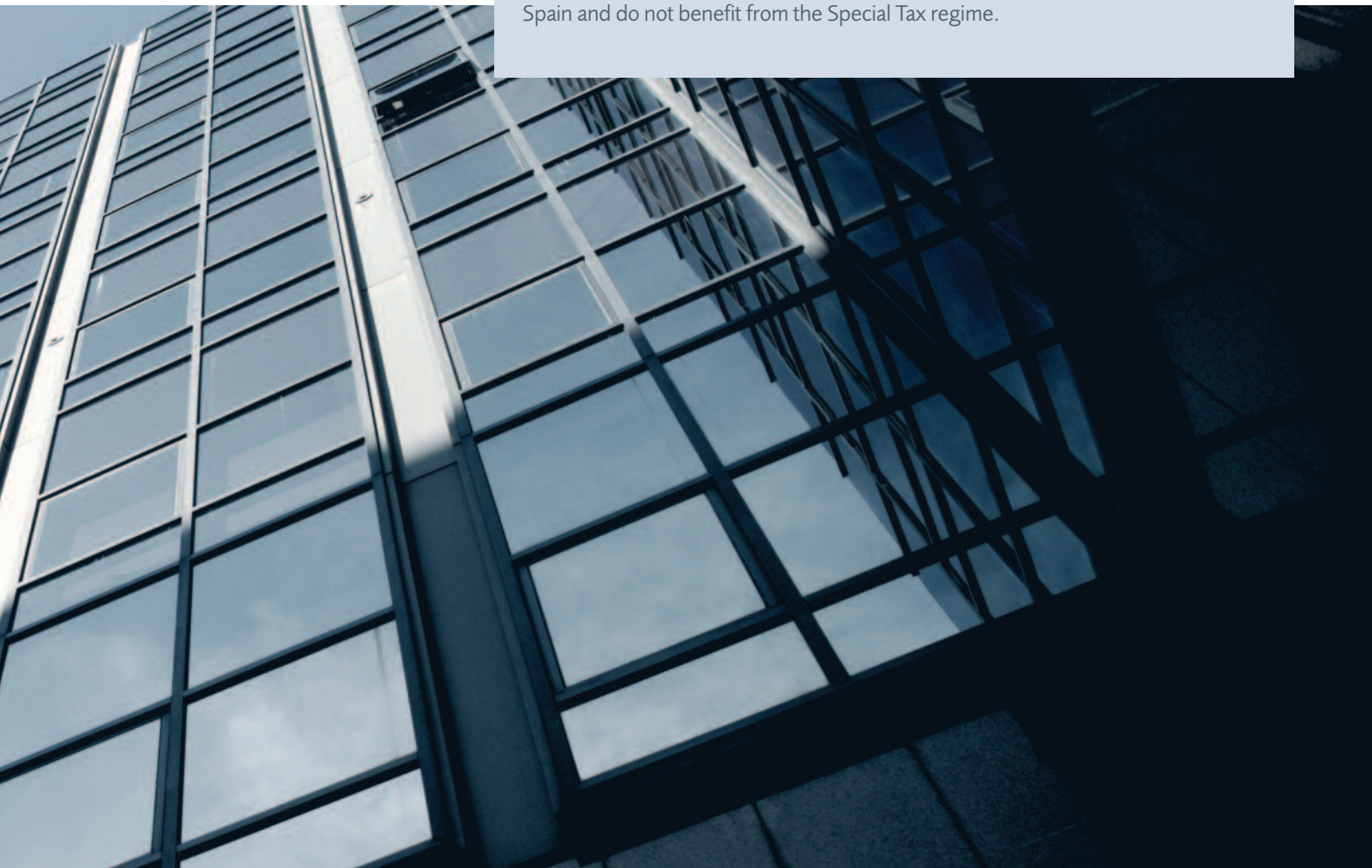
### **(i) Special Tax Regime for inbound assignees ("Special Tax Regime")**

Inbound assignees, who take up positions of employment in Spain becoming Spanish tax resident in the process, may elect to be taxed on their Spanish sourced income and gains according to the Special Tax regime. You may only avail of the Special Tax regime during the year of arrival and the following five tax years and must also comply with various conditions including the following:

1. The individual has not been resident in Spain in the 10 tax years prior to the individual's new assignment to Spain.
2. The assignment to Spain occurs as a result of a labour/employment contract or international assignment.
3. The individual does not obtain income from a Spanish source which might be considered as obtained through a permanent establishment located in Spain.

### **(ii) Individual Income Tax ("IIT")**

The IIT regime will apply to all other individuals who are currently tax resident in Spain and do not benefit from the Special Tax regime.



## › Tax payable

Tax may be payable if you were tax resident in Spain when you invested in your bond and you make a partial/full surrender or regular withdrawal payment.

The applicable tax rate will depend on your residency status and your individual circumstances at the time you make a partial/full surrender or regular withdrawal payment. Withholding tax will not apply on death.

### **(i) Where the IIT regime applies**

From 1 January 2017, all Income on payments made from your bond will be taxed at progressive tax rates from 19% (total saving income up to €6,000), 21% (from €6,001 to €50,000) to 23% (total saving income in excess of €50,000).

We will operate a withholding tax of 19% over the gain from your bond, paid to our Spanish fiscal representative who will in turn submit the proceeds directly to the Spanish tax authorities on your behalf. You will be due to pay the difference between the amount withheld and the tax rate that correspond to the gain obtained at the time of submitting your tax return. The settlement must be submitted between the beginning of May and the end of June following the calendar year for which the tax is due.

This tax will be withheld by us and paid to our Spanish fiscal representative who will in turn submit the proceeds directly to the Spanish tax authorities on your behalf.

### **(ii) Where the Special Tax Regime applies**

The individual will be subject to taxation only on Spanish source income. Taxation for movable income (dividends, interest & gains) will be subject to a tax rate of 19%. We will operate a withholding tax of 19% over the gain from your bond, paid to our fiscal representative who will in turn submit the proceeds directly to the Spanish tax authorities on your behalf.

When you are no longer entitled to elect to be taxed under the Special Tax Regime (e.g. after your sixth consecutive year as a Spanish tax resident), we will automatically apply the IIT regime to any payments made from your bond.

### **(iii) Where you subsequently leave Spain and become tax resident in another country**

If you subsequently inform us that you are tax resident in another country, then we are obliged to withhold tax on income derived from payments from your bond at a flat rate of 19% if you are resident in the EU, and 24% if you are resident outside the EU.

However a credit can usually be claimed against this tax liability where there is a double taxation treaty in force between Spain and your new country of tax residence.

We will apply the provisions of the relevant double taxation treaty to any payments we make to you from your bond on condition that you provide us with a certificate which proves your new country of tax residency.

### **(iv) Tax Losses**

Tax losses arising from the disposal of the bond may be offset against other income derived from the disposal of the same category of assets (e.g. savings income such as other insurance bonds, financial interests).

You may carry forward any remaining losses for a period of four (4) years to offset income from the same category of assets.

## ➤ Examples of Partial Surrender\*

Partial Surrender – no previous chargeable events	
Premium (initial value assumed used)	€200,000
Surrender Value	€260,000
Partial surrender amount	€10,000
Policyholder resident/Spanish resident before chargeable events	Yes
(Initial premium/surrender value) x partial surrender amount (€200,000/€260,000) x €10,000	Portion corresponding to premium and non taxable <b>€7,692</b>
<b>(€10,000 – €7,692)</b>	<b>Taxable income (€2,308)</b>
Tax at 19% on taxable income (€2,308 x 19%)	Tax due €439
Amount paid to policyholder	(€10,000 – €439) = <b>€9,561</b>
Surrender value – partial surrender amount (€260,000 – €10,000)	Closing surrender value of Bond €250,000

Prudential International will operate a withholding tax of 19%. The 2% above €6,000 each tax year up to €50,000 will be paid by the policyholder.

Example of Partial Surrender following previous partial surrender	
Initial premium	€200,000
Surrender Value	€280,000
Second part surrender	€18,000
Policyholder resident/Spanish resident before chargeable events	Yes
Portion corresponding to premiums previously withdrawn	€7,692
Total premium less premium withdrawn (€200,000 – €7,692)	€192,308
(Total premium less premium withdrawn/surrender value) x second part surrender <b>(€192,308/€280,000) X €18,000</b>	Portion corresponding to premiums paid and non taxable <b>€12,363</b>
<b>(€18,000 – €12,363)</b>	<b>Taxable income (€5,637)</b>
Tax at 19% on taxable income (€5,637 x 19%)	€1,071
Amount paid to policyholder	(€18,000 – €1,071) = <b>€16,929</b>
Surrender value – partial surrender amount (€280,000 – €18,000)	Closing surrender value of Bond €262,000

Prudential International will operate a withholding tax of 19%. The 2% above €6,000 each tax year up to €50,000 will be paid by the policyholder directly by self tax declaration.

\* The examples above do not take in to consideration any early exit charges that may apply. The information is based on our understanding of Spanish tax legislation as at January 2017.

## » Spanish Gift and Inheritance Tax

You are able to nominate beneficiaries to receive benefits from your bond. A nomination can be made in your application or subsequently in writing to our Administration Centre. Unless you make an irrevocable nomination you may cancel or replace your nomination either by notifying us at any time in writing or in your will. Regardless of which manner you choose to nominate a beneficiary, we will pay the death benefit to the individual identified in the most recent nomination we receive in writing to our Administration Centre.

If you nominate your bond in favour of a beneficiary, then the beneficiary may be liable to Spanish gift and inheritance tax on the death benefit. We require documentary evidence demonstrating that the beneficiary has discharged any Spanish gift and inheritance tax prior to paying any death benefit to the beneficiary.

Spanish inheritance tax is complex and not solely determined at a national level but is subject to regional variations within Spain. Accordingly we strongly advise that you seek professional legal advice prior to nominating a beneficiary in Spain.

## » Spanish Wealth Tax

Spanish Wealth Tax (Impuesto Sobre el Patrimonio) was reintroduced in 2011. Spanish resident individuals with net assets greater than €700,000, deposited or executed all over the world, are liable to wealth tax with rates ranging from 0.2% to 2.5%. The surrender value of the Prudential International Bond at 31st December is included in the valuation of net assets. Wealth tax is not solely determined at a national level but is subject to regional variations within Spain, considering rates and allowances. Please note that non Spanish residents are liable on wealth tax only for assets deposited or executed in Spain, or when the insurance contract was settled with Spanish insurers or when signed in Spain with foreign insurers operating in such territory.

## ➤ Fiscal Representative

As we do not have a permanent place of business in Spain, we are obliged to appoint a fiscal representative who is based in Spain.

The role of the fiscal representative is to ensure the proper payment and reporting of tax liabilities on your behalf to the Spanish tax authorities.

### Contact us

**Write to:** Prudential International Assurance plc, Montague House, Adelaide Road,  
Dublin 2, Ireland

**Telephone on:** +353 1 476 5000 (9am – 5 pm GMT Monday to Friday)

**E-mail us at:** [prudentialinternational@prudential.co.uk](mailto:prudentialinternational@prudential.co.uk)

Full terms and conditions of Prudential International products are available on request.



**[www.prudential-international.com](http://www.prudential-international.com)**

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