

NEW V.A.T. SPANISH TAX REGULATIONS.

JULY 2010

This guide has been prepared by our Legal Firm in order to guide you through this new tax regulation, that we all have to face up to on the 1st of JULY 2010.

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We consider important to provide consumers information to allow them easily understand the more important aspects of these operations. Our aim is that you find this guide very informative, but should you require any further assistance in this matter, do not hesitate to contact us.

The cabinet of Ministers has recently passed Spain 's 2010 budget proposal. According to the article 79 of the 26/2009, they approved the increase of the VAT rates.

The change of these rates will come in to effect on the 1st JULY 2010.

In Spain operates 3 different VAT rates.

- The standard Rate of 16% which is applicable to any taxable transaction. It will increase to 18%.
- The reduce Rate of 7% include Restaurant services, Campsite, Hotel accomm., admission to cultural events, water bills, purchase of properties and garages, toll payment, hairdresser services. It will increase to 8%
- The super reduce Rate of 4% is due on basic necessities, such as bread, milk, fruit and veggies, books, mags, newspapers, subsidy properties and garages, vehicles for the disabled. ***This rate is not set up to change.***

We would like to state that the VAT applied in each operation it would be the one existing at the time of the payment according to the Article 90 pargh 2 of the law 37/1992.

The general rule of the VAT payment, it would be at the time when they are provided at the supply of goods or services taxed by VAT. However the special cases of payment of this new increase rates are generating confusing between the consumers:

1) ADVANCE PAYMENTS IN A TAXABLE TRANSACTION:

It is questioned that if we have to regulate the VAT tax applied to that advance payments even if the supply of goods or services will be made after 1/7/10. THE ANSWER IS NO.

According to the Tax Office (Dirección General de Tributos DGT) if the goods or services are defined and identified at any time the advance payments done before 1/7/10 then the VAT would be the existing one.

The outstanding amounts (rest of the pending payments) it would be taxable with the ***new rates increased.***

But..How will this affect to property buyers their advance payments?

E.G. In NOV 2009 you purchased a new property from a Developer for 200,000€ and you state with him 3 payments before completion which is due on the 15th September 2010. The tax to pay it will be IVA @ 7% because the sale is a business operation.

The aforementioned payments **before** completion will be calculated at the current 7% VAT BUT the rest of the outstanding amount would be taxable at **8%**

And.. What will happen with the Resales or second transactions purchases?

Nothing to worry about.

Here the aforementioned VAT is called ITP (transfer tax) because it is a private deal between two individuals, currently is taxable at 7% of the value declared in the contract.

At the moment this rate **is not set** to change.

2) FUTURE TREATMENT CONTRACTS:

In this case we can mention the supply contracts (water + electricity + telephone bills) and letting ones.

The Spanish Tax Office (Dirección General de Tributos DGT) has concluded that the transactions continuing in the time of the purpose of applying the new VAT rate will attend the time when the corresponding payment or invoice is required. Even though the consumption comes in a before period of 1/7/2010.

If the payment is after JULY 2010 then the tax applied it would be the correspondent one 18 or 8% even the period of consumption comes before that date.

E.G.

In 2009 we contracted our water with the main supplier AQUAGEST, AQUALIA.. and we were paying our receipts each 2 months and the VAT applied so far was 7% but we will receive the invoices on the 1st of AUGUST for the consumption between MAY, JUNE and JULY.

So following the instructions of the DGT you will have to pay the new increase VAT rate 8% because the date of the invoice was issued the 1st AUGUST.

Finally we would like to suggest you the reviewing of your accounting and invoice programs in order that you have them ready for this new changes.

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