



Spanish Capital Gains Tax - Don't Let Inaction Cost You Money

Those living in Spain currently enjoy relatively benign rates of tax on savings income, at least compared to many other countries. Savings income in Spain includes capital gains (resulting from the sale of shares and/or property), dividend income, and deposit interest. The first €6000 of savings income is taxed at 19% with the excess attracting a tax charge of 21%.

When making a savings tax calculation for capital gains income it is important to deduct a proportion of the gain based on the time the asset was owned prior to 20 January 2006. The deductions vary dependent on the asset type and are progressive. Gains on physical property owned before 31 December 1986, shares owned before 31 December 1991, and other qualifying assets owned before 31 December 1988 will not be taxed.

The pre-2006 deductions mean that the marginal rate of Capital Gains Tax (CGT) on long-term asset disposals is often still very low. Do bear in mind though that for assets held since 20 January 2006, capital gains charges are time-apportioned, the longer an asset is held therefore the greater the marginal rate of CGT will become.

To illustrate, consider Mr Smith who bought a property in the UK in 1986. He qualifies for a full pre-2006 CGT exemption, but any gains since 2006 have been time apportioned. The taxable percentage of the gain has therefore moved from 0% to 20% in the past five years, and if the property is held for the next five years the taxable percentage increases to a rather unattractive 33.33%.

If you hold assets which were acquired before January 2006, it is important to assess the effects of time apportionment, as the longer you wait, the higher the tax rate will become.

The levels and basis of tax are of course subject to change.
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The Fry Group Head Office, Crescent House, Crescent Road, Worthing, West Sussex, BN11 1RN
Tel:+44 (0) 1903 231545 Email: admin.upload@thefrygroup.co.uk