



INVEST IN **GRAN CANARIA**,
CONNECT YOUR BUSINESS TO THE WORLD

2. TAX CREDITS AND TAX BENEFITS FOR THE INVESTMENT



2. TAX CREDITS AND TAX BENEFITS FOR THE INVESTMENT IN THE CANARY ISLANDS

2.1	Introduction	1
2.2	The Canary Islands Special Zone (ZEC)	3
2.3	The Reserve for Investments in the Canary Islands (RIC)	4
2.3.1	Contents of the tax regime	4
2.3.2	Main requirements	4
2.4	Tax benefits for the production of corporal goods in The Canary Islands	6
2.5	Tax Credit for Investment in Fixed Assets in The Canary Islands	6
2.6	Improved Tax Credits for Investments in The Canary Islands	6
2.7	Tax benefits in Indirect Taxation Exclusive to The Canary Islands	7
2.8	Special Register for Ships and Shipping Companies (REB)	7
2.9	The Customs-Free Area of Gran Canaria	8

2. TAX CREDITS AND TAX BENEFITS FOR THE INVESTMENT IN THE CANARY ISLANDS

2.1 Introduction

In the Canary Islands the general rules of the Spanish tax system are applied, which implies the application of a modern tax system, which is also fully harmonized with the European Union regulations. Therefore, it is possible to make business within the rules of the European Common Market, enjoying the freedom of capital movement, merchandises and people within the European Union.

Nevertheless, in the particular case of the Canary Islands, it is applied also a set of specific rules that constitute the Tax and Economic Regime of the Canaries (REF). The tax regulations of the REF consist in several very advantageous tax benefits, both in direct and in indirect taxation, which purpose is to promote the economic development of the Canary Islands.

These tax benefits are complementary to the Spanish tax system, and as such are fully compatible with the integration of the Canary Islands in the European Common Market, and are also adapted to the Guidelines on State Aids for regional purpose and to the Aid Maps, approved by the European Commission for the period 2007-2013.

Prior to the detailed analysis of the main tax benefits for the Canary Islands, it is enclosed a brief table that enunciates the main taxes of application in Spain, and hence in the Canary Islands, along with the main tax rates and the singularities or advantages of the Canaries (extensive information about each tax is given in Additional Information).

TAX	DESCRIPTION	TAX RATES	SINGULARITIES/ ADVANTAGES OF THE CANARY ISLANDS
Corporate Income Tax	Applied on the net income obtain by companies in Spain	30% (general rate) 25% for small companies	There are several exclusive tax benefits: Special Canary Zone, Reserve for Investments in the Canary Islands, Tax Benefit for the production of corporal goods, Tax Credit for investment in fixed assets, other improved tax credits, Special Ship Register
Personal Income Tax	Applied on the income obtained by individuals in Spain	19-21 % fixed tax rate for capital and savings income 24%-43% for general income	Tax credits specific for the Canary Islands The taxpayers that perform business activities can apply the RIC, the deduction for investment in fixed assets, and the improved tax credits in the Canary Islands
Non-Residents Income Tax	Applied on the income obtained by a non resident, which is deemed to have been obtained in Spain. The tax treatment is different depending on the existence or not of a permanent establishment	24% without permanent establishment (general rate) 19% without permanent establishment, for capital gains and other capital income 30% with permanent establishments, plus 19% for the transfer of capitals out of Spain	If the business activity is made through a permanent establishment located in the Canary Islands, it can be applied the RIC, the tax credit for investment in fixed assets, and the improved tax credits in the Canary Islands
Inheritance and Donations Tax	Applied on the inheritance and donations made in favour of individuals	Progressive scale from 7% to 34%, depending on the age, kinship and wealth of the beneficiary	In practice has been almost removed between ancestors and descendants
Canary General Indirect Tax	Indirect Tax, very similar to the VAT, but specific to the Canary Islands	General rate is 5% Special tax rates for certain goods 0%, 2%, 9%, 13% (tobacco, 20% and 35%)	Tax rates are far lower than VAT. Despite not belonging to VAT territory, this tax is fully coordinated with the VAT and its regulation is very similar. There are exemptions related to certain investments
AIEM	Indirect Tax that applies only to a limited list of products whose local production is protected in the Canary Islands	5% to 20%, depending on the product	Tax applied only in the Canaries and for a limited list of products
Transfer Tax and Stamp Duty	Indirect tax applied on certain transfers of property (not taxed by IVA or IGIC), certain Corporate operations and certain notary documents and others	Transfers of property: 4%-6.5% Corporate Operations: 1% Documents: 0.75% general rate, other rates for specific documents	There are exemptions related to certain investments
Special Taxes	Taxes levied on the use or consumption of certain products. In the Canary Islands, only applied on electricity, alcohol and alcoholic beverages, transportation means, and fuel deriving from petrol	Rates very specific for each product	Tax rates in the Canary Islands are lower than in the rest of Spain

The main regulations of the Canary Islands REF are contained in Law 19/1994, of the 6th July, for the Amendment of the Economic and Tax Regime of the Canary Islands, and Law 20/1991, of the 7th June, for the Amendment of the tax aspects of the Economic and Tax Regime of the Canary Islands.

One of the main and defining characteristics of the tax benefits of the Canary Islands it is that the most relevant benefits are conditioned to the execution of a productive investment in the Canary Islands. This way, the REF regime establishes a tax and legal environment that favours the investments in the Canary Islands, in such a way that the Archipelago is shown as an especially attractive destination for foreign investors. On the other hand, the remaining tax benefits described in this section also contribute to reduce greatly the tax burden in the Canary Islands.

As a consequence, within the REF it can be distinguished clearly two different types of tax benefits:

- Tax benefits conditioned to the execution of a productive investment, such as the Reserve for Investment in the Canary Islands, the tax credit for investment in fixed assets, the improved tax credits in the Canary Islands, along with certain exemptions in indirect taxation.
- Tax benefits that reduce significantly the tax burden in the Canary Islands, such as the Special Canary Zone aka ZEC (although a minimum investment is required, the ZEC is mainly a low taxation area), the tax benefit for the production of corporal goods, the Special Register for ships and shipping companies, the regulation of the Canary General Indirect Tax (IGIC), and the specific regulation of Special Taxes.

In the following pages the main aspects of the tax benefits mentioned above are explained, which as a whole constitute the tax regime of the Canary Islands REF. The purpose of this section is to summarize the main aspects of the tax benefits mentioned; besides, a thorough explanation of the Spanish tax system and the tax benefits and features of the Canary Islands is given in Complementary Information.

For a better understanding, it is enclosed below a table summarizing the specific advantages of each tax benefit:

REF INCENTIVE	DESCRIPTION	ADVANTAGE
Special Canary Zone (ZEC)	The Special Canary Zone is a low taxation area in the Corporate Income Tax (4%), conditioned to the execution of minimum investments and jobs creation	Perfect tax benefit for foreign investments, which gives high tax benefits requiring small investment and job creation
Reserve for the Investment in the Canaries (RIC)	The Reserve for the Investment in the Canaries is a tax benefit in the Corporate Income Tax that allows a reduction of up to 90% of the taxable base (also in Personal Income Tax, up to 80% of the tax payable), of the non distributed profit which is allocated for the execution of the so called initial investments, or investments qualified as running aids	Very powerful tax benefit that promotes the capitalization of businesses in the Canary Islands, as its main requirement is the reinvestment of profits in certain assets. This way, an environment attractive for local or foreign investments is procured
Tax credit for Investment in Fixed Assets in the Canary Islands	Tax benefit in the Corporate Income Tax and Personal Income Tax, consisting in a tax credit of 25% of the investment in fixed assets allocated to the development of a business activity performed in the Canaries	Very powerful tax benefit, which is also flexible and with immediate effect, as the tax credit is accrued in the same Fiscal Year in which the investment is executed
Tax Credit for Investments in the Canary Islands	It is an improvement over the tax credits common in Spain related to certain investments and activities (p.e., labour formation, or R+D) The increase is 80% with a minimum of 20 percentage points in the tax credit rate	It is a substantial improvement over the tax credits applied in the rest of Spain
Tax Benefit for the production of corporal goods in the Canary Islands	Tax benefit in the Corporate Income Tax that allows a reduction of 50% of the gross tax payable deriving from profits obtained in the production of corporal goods in the Canary Islands	Rewards productive and manufacturing activities, reducing in 50% the tax applied to the profits obtained from the development of said activities
Special Ships Register (REB)	Among other tax benefits, this regime allows a reduction of 90% of the gross tax payable in the Corporate Income Tax for the operation by shipping companies of the ships registered in the REB	Tax benefit whose purpose is to improve the competitiveness of shipping companies located in the Canary Island, along with the ports of the Archipelago
Customs-free area of Gran Canaria	The Customs Free Area is a zone allocated within the customs area, where it is possible, without a time limit, to store, transform and distribute merchandise, without levying customs duties, nor other indirect taxes	Very adequate for logistic international operations, transformation processes of raw materials of non-European origin, and other manufacturing processes

2.2 The Canary Islands Special Zone (ZEC)

The Canary Islands Special Zone (ZEC), is a **low taxation area** which was created within the Economic and Tax Regime of the Canary Islands with the purpose of promoting the establishment of new businesses in the Canary Archipelago. One key issue to consider is that there is a clear definition of the geographical areas in which the companies can be allocated, except in the case of service activities, which do not have restrictions regarding its geographical allocation.

In this sense, Law 19/1994, of the 6th July, defines the low taxation area for Gran Canaria, which comprises an area of up to 150 hectares. In this area it will be possible to develop business activities regarding the manufacturing, transformation, handling and marketing of goods, which should be allocated in these areas in order to apply for the benefits of the ZEC regime. On the contrary, the entities whose business purpose is the rendering of services, will be able to establish their business anywhere within the Canaries and will be able to apply for the ZEC regime, provided that they obtain the required authorization, and meet other requirements that will be mentioned in the following pages.

The tax benefits of this special regime are the following:

• **Corporate Income Tax**

As a general rule, the tax rate of application in Spain was established, since fiscal year 2009, at 30% (25% for small-sized companies). Whereas for ZEC entities, the tax rate regarding the Corporate Income Tax has been established at 4%, although this reduced rate will be applied to a limited amount of the taxable base, which varies depending on the employment creation and the type of business activity developed by the ZEC company, in a range that goes from 1,125,000€ to 120,000,000€.

Furthermore, ZEC entities will be able to apply the Double Taxation Treaties signed by Spain, along with the Parent-Subsidiary EU Directive. On the other hand, if the parent company of the ZEC entity is a Spanish company, it will not qualify for the tax credit for double taxation of dividends or capital gains generated within Spain.

• **General Indirect Canary Tax (IGIC)**

ZEC companies are exempt from IGIC for the sale of goods or rendering of services made for or by ZEC entities between them, and for the import of goods made by ZEC entities.

Furthermore, companies that have applied for this special tax regime, will have the right to deduct and request the refund of the IGIC quotes borne in the realization of its business activity.

• **Transfer tax and stamp duty**

ZEC entities will be exempt from taxation in the following cases:

- For the acquisition of goods and rights used for the development of the activity of the ZEC entity within the geographical field of ZEC companies.
- For mercantile operations made by ZEC entities, except its dissolution.
- For the documents subject to stamp duty regarding operations made by ZEC entities within its geographical field, with the exception of bills of exchange.

• **Double taxation treaties, Parent-subsidiary Directive, and the Non Residents Income Tax**

- ZEC entities can apply the Double Taxation treaties signed by Spain.
- ZEC entities will be able to apply the Parent-Subsidiary Directive of the European Union, which means that dividends paid by ZEC entities to its parent companies, provided that they are resident in other countries of the EU, might be exempt from withholding in Spain.
- ZEC regulations grants certain tax exemptions to the income obtained by tax residents of non-EU countries, when such income is paid by ZEC entities as a result of operations performed material and effectively within the geographical area of the ZEC entity.

The tax benefits of the Special Canary Zone will remain in force until the 31st December of 2019, although they can be extended with the authorization of the European Commission. The authorization for the inscription of new entities in the Official ZEC Register can be filed up to the 31st December of 2013.

• Requirements that must be met by the companies in order to apply for the special tax regime applied to ZEC entities

The companies that want to file for the ZEC special tax regime must be newly created corporate entities, authorized and registered before the Official Register of ZEC entities, meeting, among others, the following requirements:

- Being a newly incorporated entity, whose domicile and head office are located within the geographical area of the ZEC, and at least one of the members of the board of directors is resident in the Canary Islands.
- Execute a minimum investment of 100.000€, in the case of Gran Canaria, in fixed assets, corporal or intangible, placed within the ZEC geographical area and assigned to the business activity.
- Creation of at least 5 jobs, in the case of Gran Canaria, within the 6 months following the date of the authorization, and maintain an average workforce of at least 5 jobs during the period in which the company is registered as a ZEC entity.
- Its corporate purpose must comprise any of the activities listed for ZEC purposes.
- Inscription and authorization in the Official Register of ZEC entities, filing beforehand certain documents related to the business project.

2.3 The Reserve for Investments in the Canary Islands (RIC)

The Reserve for Investments in the Canary Islands (hereinafter, RIC), is a tax benefit to promote investments, which can be applied by corporate entities subject to the Corporate Income Tax (hereinafter CIT), which have an establishment in the Canaries, as well as by individuals that determine their net income by the method of direct appreciation, provided that the income derives from economic activities developed through establishments located in the Archipelago, and the accounting rules of the Code of Commerce are observed.

The RIC can also be applied by individuals and entities non resident in Spain that operate in the Canary Islands through a permanent establishment, for the income obtained, through a reduction in the taxable base in the Non Residents income tax.

2.3.1 Contents of the tax regime

With effects in fiscal years starting after the 1st January of 2007, it should be distinguished between:

- Companies, which can apply for a reduction in the taxable base of the CIT for the amount of the RIC allocations made each fiscal year. The allocation has a limit, which is 90% of the profits of the fiscal year that have not been distributed and are related to the establishments located in the Archipelago.
- Individuals, for which the tax benefit consists in a tax credit against the tax payable of their Personal Income Tax, for the net income deriving from a business exploitation that are assigned to RIC, provided that they proceed from business activities developed in the Archipelago, through establishments located therein.

The tax credit is determined applying the average tax rate to the annual allocation of the reserve, with the limit of 80% of the apportion of the tax payable amount that corresponds proportionally to the income mentioned before.

2.3.2 Main requirements

• Investment of the RIC

The amounts allocated to RIC must be materialized (invested), starting from the 1st of January of 2007, on any of the following investments:

Initial investments

- Acquisition of new assets, corporal or intangible as a consequence of the creation or enlargement of an establishment, the diversification of the activity of an establishment for the manufacturing of new products, or a substantial transformation in the manufacturing process of an establishment. There are relevant limitations regarding the purchase of land.
- Job creation, insofar it is related directly to initial investments. It is necessary that the hiring happens in the period that comprehends the six months prior to the date in which the investment entered into work and the following six months.
- Subscription of shares issued by other companies as a consequence of its incorporation or a capital increase, that develop in the Archipelago its activity, provided that certain requirements are met, namely, the execution of some of the investments mentioned before in letters a) or b). These investments must be executed in the same period that was left to the company that subscribed the capital in order to invest its RIC.

Investments that are considered working aid

- Acquisition of fixed assets, corporal or intangible, which do not meet the requirements to be considered an initial investment. There are also important limitations regarding the purchase of land.
- Acquisition of assets that contribute to improve and protect the natural environment in the Canary territory, as well as the investments assigned to the exploitation of renewable energy sources for its transformation into electricity.
- Research and Development expenses
- Subscription of shares issued by entities of the Special Canary Zone (ZEC), as a consequence of their incorporation or capital increase, although some additional requirements must be met.
- Subscription of shares or participation on the capital or the equity issued by risk capital companies or funds, as well as investment funds. The subscription must be made at the moment of the incorporation or capital increase, and the amount invested must be used by the risk capital company in the subscription of capital issued or in a capital increase of other companies that, in their turn, execute the investments qualified as initial investments (letters a and b).
- Subscription of equity or account annotations of public bonds of the Canary Islands Autonomous Community, of the local corporations of the Canary Islands, or their public companies or autonomous bodies, provided that the public debt is assigned to the financing of investments in infrastructures, or the improvement and protection of the natural environment in the Canarian territory.
- Subscription of equity issued by public entities pursuant to the building or exploitation of infrastructures or equipment that are of public interest for the Public Administrations in the Canaries, when the financing obtained is assigned solely to the construction or exploitation mentioned.
- Subscription of equity issued by private entities pursuant to the building or exploitation of infrastructures or equipment that are of public interest for the Public Administrations in the Canaries, once the due concession or administrative authorization is obtained, when the financing obtained is assigned solely to the construction or exploitation mentioned.

The last three investments will have a joint limit of 50% of the RIC allocated each year.

- Localization and use of the assets

The assets that have been assigned to RIC investment must be located or being received in the Canary Islands, must be used therein, assigned and needed for the development of economic activities of the taxpayers, unless they contribute to the improvement and protection of the natural environment in the Canary territory.

- Period to invest the reserve

The investment of the amounts allocated to RIC must be executed within a 3 year period, starting from the due date of the tax corresponding to the fiscal year in which the Reserve has been allocated.

- Period of maintenance of the investments

Assets that are considered initial investments must be kept in use in the company during at least 5 years, without being transferred, leased or lent to others. In the case of land, the period of maintenance will last ten years.

- Incompatibilities of the regime

Apart from the incompatibility with certain State Aids, the RIC tax benefit is incompatible, for the same assets and expenses, with the deductions to promote the development of certain activities, regulated in the Corporate Income Tax Law, Chapter IV of Title VI, and with the tax credit for investment in new assets regulated in Law 20/1991.

- Quantitative limits to the tax benefit for RIC allocations

Following the regulations of European Community Law, State aids of regional purpose cannot exceed certain limits in the percentage of the investment that is financed by the aids; in the case of ultra-peripheral regions, like the Canary Islands, 40%, percentage that increases to 50% for medium sized companies and 60% for small companies. These limits are applied considering not only the savings in the tax payable due to RIC, but any other aid (for example, subsidies).

2.4 Tax benefits for the production of corporal goods in the Canary Islands

Taxpayers subject to the Corporate Income Tax, as well as the taxpayers of the Personal Income Tax that determine their net income deriving from business activities by the method of direct appreciation, will have the right to apply a reduction of 50% of the gross tax payable that proportionally corresponds to the net income obtained from the sale of corporal goods manufactured in the Canaries by the taxpayer, relating to agricultural, livestock, industry and fishing activities.

2.5 The tax credit for investment in new fixed assets in the Canary Islands

The tax credit for investment in new fixed assets is applied in the Canary Islands despite the fact that it has been abolished in the rest of Spain. The main characteristics of this tax credits are explained below:

- The tax credit is accrued in the fiscal year in which the investments are put into the disposition of the taxpayer.
- The rate of the deduction is 25% of the investments that qualify.
- The maximum amount of the deduction that can be used to offset the gross tax payable is 50%, although the deductions generated in previous fiscal years can be also applied with the same limit, but with a combined limit of 70% of the gross tax payable. It is also even possible to combine deductions of several years, absorbing a full 100% of the gross tax payable.
- It is possible to invest in certain used fixed assets, provided that these assets have not been used for this same deduction previously and that a technological advantage is credited.

2.6 Improved Tax Credits for Investments in the Canary Islands

Companies and other entities domiciled in the Canary Islands will be able to benefit from an increase in the general rates of the tax credits granted by the Spanish regulations to incentive the realization of certain activities. Specifically, the rates applied in the Canaries on the investments executed will be 80% higher than the ones of the general regime, with a minimum difference of 20 percentage points. Furthermore, the limit of application of the tax credit also increases 80% over the general regime, with a minimum difference of 35 percentage points.

In the following table it is listed a summary of the more relevant increased tax credit rates for the Canary Islands:

TAX CREDIT...	2009	2010	2011	2012
Research and Development activities	45/75,6	45/75,6	45/75,6	45/75,6
Technical Innovation activities	28	28	28	28
Export activities	26	23	-	-
Environmental protection investments	24	22	-	-
Labour Formation	22/24	21/22	-	-
Promotion of information and communications technologies	26	23	-	-
Extraordinary profits reinvestment	12	12	12	12
Contribution to employees pension funds	24	22	-	-

In this respect, please be aware that, as it is the case for all the other taxpayers of the Corporate Income Tax in Spain, these tax credits to promote certain activities will be reduced progressively until its complete abolishment.

2.7 Tax benefits in Indirect Taxation Exclusive to the Canary Islands

Entities subject to the Corporate Income Tax which are domiciled in the Canary Islands and the ones that operate in the Canaries through a permanent establishment might be exempt from transfer and stamp duty tax, as long as this tax is considered to be produced in the Canary Islands:

- In the category of transfer of property, for the acquisition of investment properties and intangible rights that qualify as initial investments (in terms similar to the RIC).
- In the category of mercantile operations, for the incorporation of companies and capital increase, for the whole or part of the operation that is bound to the acquisition or import of investment properties, or the acquisition or cession of intangible rights that qualify as initial investments (in terms similar to the RIC). Capital increases through debt compensation can never apply for the exemption.

Likewise, the entities subject to the Corporate Income Tax which are domiciled in the Canary Islands and the ones that operate in the Canaries through a permanent establishment, which do not have the right to deduct the total amount of IGIC borne, might be exempt from the tax:

- In the acquisition and import of investment goods that qualify as initial investment, when the aforesaid entities are the acquirers or importers of the assets.
- In the cession of certain intangible assets, when the aforesaid entities act as cessionary. In this case the exemption will only cover 50% of the value of the operation, unless the cessionary is a small sized company.

2.8 Special Register for Ships and Shipping Companies (REB)

It is a tax incentive conceived to improve the competitiveness of the shipping activities located in the Canary Islands, as well as the ports in the Canaries, thanks to the tax exemptions and tax benefits granted to the shipping companies and ships that are registered in the REB.

To obtain the inscription in the REB, certain requirements must be met, both by the shipping companies as well as by the ships and their crews.

The tax benefits are related to the following taxes:

• **Transfer tax and stamp duty**

Contracts and other legal acts executed over ships registered in the Special Register, which are subject to the Transfer tax and stamp duty tax will be exempt from taxation.

• **Personal Income Tax and Non Residents Income Tax**

- Crew members of the ships inscribed in the REB, which were taxpayers of the Personal Income Tax, will have a 50% exemption on their taxable income deriving from salaries, which had been generated during the navigation made in ships inscribed in the said Register.

- Crew members of the ships inscribed in the REB, which were taxpayers of the Non Residents Income Tax, will have a 50% exemption on their taxable income deriving from salaries, which had been generated during the navigation made in ships inscribed in the said Register.

- Nevertheless, when the ships are assigned to regular services of passenger transport between ports of the European Union, the exemptions mentioned previously will be applied only to crew members that are citizens of any of the countries which were members of the European Union or any of the countries that belonged to the Agreement on the European Economic Space.

• **Corporate Income Tax**

There will be a reduction in 90% of the gross tax payable of the Corporate Income Tax, after applying the deductions for double taxation internal and international, which corresponds to the apportionment of the taxable

base that proceeds from the business exploitation developed by the shipping companies related to the services rendered between the Canary Islands and between the Islands and the rest of the Spanish territory, by their ships duly inscribed in the Special Register.

- **Special taxes**

The first definitive register of a ship before the Special Register of ships and shipping companies will not be subject to the Special tax on certain ways of transportation.

- **Social Security contributions**

There will be a reduction in 90% in the contributions to the Social Security contributions borne by the shipping companies, regarding the crew members of ships registered in the Special Register.

2.9 The Customs-Free Area of Gran Canaria

The Customs-free area of Gran Canaria is an enclave located within the customs area, fully delimited, where it is possible, without a time limit, to store, transform and market goods, without levying customs duties, nor other indirect taxes.

Furthermore, the companies established within the Customs-free area of Gran Canaria enjoy the following specific tax and customs benefits:

- Exemption of payment of customs duties when the goods are introduced in the area.
- Exemption of payment of indirect taxes in the processes of preparation of the goods, such as labelling, packaging, re-packaging, previous to its departure.
- Possibility of being a ZEC company.
- Possibility of applying the RIC tax benefit in the Corporate Income Tax.
- Exemption in the payment of transfer tax and IGIC-VAT in investment assets.
- Location in a strategic port for international logistic operations.

Any company that is interested in establishing in the Customs-free area of Gran Canaria will have to file a project applying for its authorization by the Plenary of the Consortium, accompanied of certain documents.