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Spain approves State Budget Bill for 2021

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Executive summary

On 31 December 2020, Spain's State Budget Bill for Fiscal Year (FY) 2021 (the Budget Bill) was published in the Spanish *Official Gazette* after its prior approval by the Spanish Congress and Senate (For background on the Budget Bill, see EY Global Tax Alert, <u>Spain releases 2021 State Budget Bill</u>, dated 29 October 2020).

The Budget Bill entered into force on 1 January 2021; specifically, with respect to the amendments for Corporate Income Tax (CIT) purposes, the Budget Bill establishes that it enters into force for fiscal years beginning on or after 1 January 2021.

The Budget Bill includes a number of tax measures, mainly aimed at increasing the tax revenues for FY 2021. The final text of the Budget Bill was not subject to relevant modifications to the initial text sent by the Spanish Council of Ministers to the Parliament for approval in October 2020.



Key highlights

Among others, the tax measures include the already anticipated amendments to the participation exemption regime for dividends and capital gains; also, the Budget Bill includes amendments to other provisions regarding the avoidance of double taxation (such as the tax credit to avoid double taxation for dividends and capital gains received by Spanish entities) and to the Spanish domestic exemption for European Union shareholders obtaining Spanish-sourced dividends or capital gains in line with the amendment to the participation exemption.

The Budget Bill does not amend the exemption for income derived through a foreign permanent establishment. It also does not amend the Spanish holding regime (ETVE) with respect to the taxation of non-Spanish tax resident shareholders.

In addition, the Budget Bill introduces amendments to the Personal Income Tax applicable rates and to other taxes, such as Value Added Tax, Net Wealth Tax, Special Taxes and Local Taxes. It also increases the tax rate applicable on insurance premiums.

Next steps

A Global Tax Alert detailing each of the tax measures and their potential impact on structures with a Spanish holding company is forthcoming.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (United States), Spanish Tax Desk, New York

Jose A. (Jano) Bustos

joseantonio.bustos@ey.com

Isabel Hidalgo

isabel.hidalgo.galache1@ey.com

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