

Chandrawat
& Partners

DOING BUSINESS IN SPAIN

A comprehensive guide

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Introduction

Spain, a country in the southwest of Europe, provides a dynamic and varied business environment for those looking to start or grow their companies. Spain has established itself as a desirable place for foreign enterprises that want to take advantage of its expanding economy and advantageous geographic location. It is known for its rich history, cultural legacy, and favorable environment.

Spain has a strong economy, therefore, this nation offers a stable monetary environment for companies operating within its borders as it is a member of the European Union ("EU") and the Eurozone.

Spain serves as a great hub for trade and investment due to its strategic location at the intersection of Europe, Africa, and the Americas. Its attraction is further increased by the well-developed transportation and communication networks, which provides simple access to both domestic and foreign markets.

Spain provides a significant customer base with a population of over 47 million people. There are many prospects for businesses in various industries because the nation has a broad market with a wide range of preferences and wants.



Economic Growth

Over the previous few years, Spain's Gross Domestic Product ("GDP") has grown gradually. Spain is an attractive entry point to Europe, Africa, and Latin America due to its geographic location. It serves as a prime hub for international trade since it provides excellent access to markets in the EU and the Mediterranean region.

Particularly in sectors like engineering, technology, and finance, Spain boasts a workforce with a high level of education and expertise. Utilizing this skill pool can help businesses innovate and prosper.

The Spanish government provides a range of subsidies and incentives to entice foreign investment and promote corporate growth in particular regions or sectors.

Businesses looking to grow their operations into Europe or take advantage of its broad economy continue to find Spain to be a desirable location. For business efforts to be successful in Spain, extensive market research, knowledge of local laws, and professional guidance are all necessary.



Foreign Direct Investment Policy

Due to Spain's membership in the European Union ("EU"), it adheres to all Foreign Direct Investment ("FDI")-related EU rules and laws. Spain promotes international investment and offers few barriers for foreign firms to operate and invest in the majority of economic sectors. Spain is a member of the EU and upholds its values of non-discrimination and the free flow of capital, making it possible for EU-based companies to invest in Spain without encountering any significant obstacles. According to Spanish law, FDI includes:

- a foreign investor (as defined below) acquires a position worth 10% or more of the company's share capital; or
- The foreign investor gains control of all or part of the company as a result of the relevant corporate transaction, legal action, or business if (i) they have the ability to make major decisions regarding the company due to their ownership or use of all or part of its assets; (ii) they can make major decisions regarding the company's management bodies,



or (iii) they fall under one of the circumstances listed in the Spanish Commercial Code.

The prior administrative authorization will be required for FDI when done by:

- citizens of nations not part of the European Union ("EU") or the European Free Trade Association ("EFTA"); or
- residents of non-EU and non-EFTA countries who have ultimate beneficial ownership that is equivalent to residents of the EU or EFTA (such ultimate beneficial ownership will be deemed to exist if the latter, directly or indirectly, owns or controls a percentage higher than 25% of the investor's share capital or voting rights, or if it has control, directly or indirectly, by other means, over the directly investing company); and
- if the relevant foreign investor has certain features or if the FDI has an impact on Spain's major strategic industries. It is intended to prevent the ban from being circumvented by employing intermediate businesses with a registered office in the EU or EFTA by extending it to investors who are owned by citizens of foreign countries.



Key Sectors

Spain has a strong economy, ranking 4th in the European Union ("EU") and 14th globally. Spain's GDP grew by 2.5% last year, making it the main eurozone economy with the fastest growth. The following Key Sectors are below:-

- **Defense and Aerospace-** The Spanish aerospace industry now holds the fifth-place position in Europe and is ranked eighth globally, making it a leader in the continent's aeronautical activity. The country's aerospace employment has increased by 65% till now, and in 2021 the industry generated US\$ 8,055, and in 2022 the industry generated US\$ 8,595 in sales.
- **Tourism-** Naturally, an essential part has been performed by Spain's remarkable tourism sector. Over 82.6 million tourists visited in 2022, which was a record-breaking year with €89,678 million in revenue. The country's largest employer, the tourism sector, now employs 13.7% of the working population, surpassing the construction industry lately.



- **Automotive-** Spain is a worldwide and regional automotive manufacturing leader, ranking eighth overall and second in Europe. The car manufacturing sector expanded by 45% and its current revenue is anticipated to be €100 billion. The annual investment in growth and modernization is about €4 billion, of which €1.5 billion is made by auto-parts makers in Research, development, and innovation ("R&D&I").
- **Life Sciences-** Spain is ranked 10th in the world for scientific productivity and 5th in the European Union ("EU")¹⁵ for scientific capability. More than 800 public and private hospitals supported by cutting-edge research facilities can be found in Spain. Spain is a desirable location for life science enterprises due to the growth of biotechnology, science and technology parks, and research institutions. The Spanish government supports the sector by offering incentives, such as low-interest loans, to start-ups and expanding life science companies.
- **Information and Communication Technologies ("ICT")-** The ICT industry is one of the largest in Europe. The Spanish government is actively supporting the ICT sector, and Spain has established itself as a pioneer in the implementation of the Digital Agenda for Europe. Spain is a popular destination for ICT investment due to its talented labor population, affordable rates, and preferential access to Latin American markets.
- **Chemical Sector-** More than €35,354 million in sales, or more than half of national production, is exported. Chemical manufacturing is a particularly appealing area for future investment since it is expected to increase by an average of 4.5% annually through 2030 and because investment in the industry accounts for 25% of Spain's total R&D.



Advantages of Doing Business

- **Access to a substantial market:** Spain, the fourth-largest economic force in Europe with a Gross Domestic Product of \$1.2 billion, provides access to 46 million prospective customers. Spain enjoys all the benefits of easy trade with the EU that come with being a large economy in the EU, including straightforward procedures, lower tax burdens, and unrestricted movement of people and commodities.
- **Strategic Location:** Spain is a gateway to larger markets, including those in Latin America, the Middle East, and North Africa, thanks to its geographical location. The nation has solid commercial ties and is a part of the European Union, giving it access to the biggest market in the world.
- **Favorable tax structure:** The tax structure of Spain facilitates and guarantees foreign investment. The nation provides numerous tax breaks to corporations, including lower corporate tax rates and tax rebates for R&D expenditures.
- **An emphasis on investment, research, and development:** Spain has a strong commitment to research and development and provides a number of incentives for companies participating in R&D operations. The nation is home to numerous research institutions and universities, and it has a well-developed innovation ecosystem.
- **Business Culture:** Spain has a more easygoing business culture, as well as a more relaxed way of life in general. The country's liberal business culture may make it simpler for companies to forge connections with customers and partners.



Types of businesses

- **Sole proprietorship-** The simplest type of company that enables people to run their own business is a sole proprietorship, or "autónomo" in Spanish. It is appropriate for people who desire to operate independently and manage their own business. With almost 3 million sole proprietorships operating in the nation, it is also the most frequent and widely used type of business structure. Small and micro-businesses including those run by independent contractors, self-employed professionals, and craftsmen frequently use sole proprietorships.
- **Partnership-** In Spain, partnerships are a sort of firm entity when more than two people join forces to jointly own and control a business. For firms that need more resources or experience than a sole proprietorship can provide but do not want to create a company with a more formal structure, partnerships are a popular option. Partners must first register with the Spanish tax authorities and, if necessary, acquire a business license in order to establish a partnership in Spain.
- **Limited Liability Partnership-** In a limited partnership (Sociedad Comanditaria), the corporation is made up of two different kinds of partners: general partners and limited partners. While the limited partner provides cash to the company but has limited accountability for the company's debts and obligations, the general partner manages the partnership and is personally liable for its debts and obligations. A minimum of two partners are needed to form a limited partnership in Spain, one of whom must be a general partner and the other a limited partner.



- **Limited Liability Company-** Spanish businesses frequently use Limited Liability Corporations ("LLCs"), which combine the convenience and adaptability of a partnership with the limited liability protection of a corporation. Owners are referred to as "partners" in an LLC, and their liability is limited to the amount of money they contributed to the company.
- **Public Limited Company-** Public limited corporations ("PLCs") are businesses whose stock is publicly traded in Spain. Larger companies that need substantial amounts of capital and seek to raise money through the issuance of shares frequently utilize this form of corporate structure. The founding members must write and sign the company's articles of organization, which must be registered with the Commercial Registry, in order to establish a PLC in Spain.
- **Cooperative society-** A cooperative business structure is a particular kind of corporation owned and managed by the people who use its services or work for the business. A cooperative's primary goal is to improve its members' economic and social well-being by dispensing goods and services.
- **Limited Partnership with Shares-** In Spain, a corporate structure known as a limited partnership with shares (Sociedad Comanditaria por Acciones) combines the traits of a limited partnership and a public limited company. The company must have a name that contains the phrase "Sociedad Comanditaria por Acciones" or its abbreviation "S.C.A." in order to establish a limited partnership with shares in Spain.



- **Economic Interest Grouping-** An Economic Interest Grouping ("EIG"), is a sort of corporate organization in Spain that enables two or more businesses to work together on a single project or commercial activity. An AIE's main objective is to make it easier for businesses to pool their resources, knowledge, and expertise in order to accomplish shared objectives. Two or more businesses must sign a contract outlining the AIE's goals and objectives as well as the resources and obligations of each member business in order to create an AIE in Spain.
- **European Company-** The European Company, or Societas Europaea ("SE"), is a type of corporate organization accessible in Spain and other countries that make up the European Union. It is created for businesses that operate across different EU nations, giving them a single legal framework that makes cross-border operations easier. A corporation must first set up a holding company in the form of a private limited company ("SL") in order to establish a SE in Spain. The articles of association for the SE must then be written by the holding company, approved by the company's shareholders, and registered with the Spanish Commercial Registry.
- **Branch Office-** In Spain, a foreign firm can establish a presence through the use of a branch office rather than by creating a new legal entity from scratch. Instead, the parent business is seen as an extension of the branch office, therefore it is still responsible for the branch's operations. The international business must first register with the Spanish Commercial Registry and get a tax identification number ("NIF") before opening a branch office there.



Minimum eligibility criteria for company registration

- **Minimum Capital:** €3,000 is the minimum capital requirement for Spanish company registration. This sum needs to be put into a bank account and verified using a bank statement.
- **Registered Address:** For the registration of a corporation, a registered address in Spain is necessary.
- **Company Name:** The Mercantile Registry must issue a certificate of no-name coincidence to prove that the firm name is not already in use.
- **Bank Account:** Open a business bank account in Spain and deposit €3,000 there before you may proceed.
- **Legal Capacity:** In order to conduct business in Spain, a foreign person or corporation must be able to do so legally in their home country.
- **Corporate Tax Identification Number:** A corporate tax identification number (CIF) is required in order to conduct business in Spain.



How to set up a business in Spain?

- **Obtain a Foreigner Identification Number:** In order to complete any legal procedure in Spain, a foreigner must have this basic identifying number. This is necessary to establish a business in Spain. In order to complete any legal procedure in Spain, a foreigner must have this basic identifying number.
- **Choose a business structure:** A variety of business entities, including sole proprietorships, stock corporations, limited liability companies, partnerships, joint ventures, and cooperatives, are available in Spain. Depending on your company's demands, select the proper business structure.
- **Registering the business name:** The Mercantile Registry must issue a certificate to prove that the firm name is not already in use.
- **Open a bank account:** Open a business bank account in Spain. A deposit of at least €3,000 is required to open a business bank account in Spain.
- **Draft the company bylaws:** The company must create bylaws, which outline the actions that the company will do along with the internal decision-making process.
- **Sign the public deed of incorporation:** The public document of incorporation must be signed in front of a notary public. At this point, the company constitution deed is obtained.
- **Join the tax authorities' database for the business:** This Entities getting a Corporate Tax Identification number ("CIF") and Mercantile Registry registration for the business name.
- **Obtain any relevant licenses or permits:** Additional licenses or permits may be needed depending on the type of business.

Taxation policy in Spain

- **Corporate Income Tax ("CIT"):** Spanish businesses are required to pay CIT on their global profits. Although there is a lower tax rate of 15% for newly founded firms during their first two years of operation, Spain's general CIT rate is 25%. Various tax incentives are included in CIT, particularly for investments in R&D and technical innovation.
- **Value Added Tax ("VAT"):** VAT is a consumption tax that is levied in Spain on the majority of products and services. The regular VAT rate is 21%, but some goods and services are subject to reduced rates of 10% and 4%.
- **Personal Income Tax ("PIT"):** PIT is a state-level tax that is levied on all types of income received by Spanish citizens abroad, including income from non-resident firms' permanent installations in Spain. Spanish regions control the PIT tax rates and deductions.
- **Business Activity Tax:** This annual municipal tax is imposed on all businesses.
- **Tax Returns:** Spanish companies are subject to a number of tax laws and regulations, which include the requirement to file regular tax returns, pay taxes on schedule, and keep correct records of all financial transactions. Financial statements and other pertinent data regarding the company's earnings and expenses must be included in tax filings.
- **Tax Incentives:** Tax incentives are provided by Spain to companies making investments in particular industries or geographical areas. Reduced corporate tax rates and tax credits for R&D operations are some of these advantages.





Accounting Standards

- **Spanish Accounting Standards:** The Spanish Commercial Code, a codify of Spanish business law, is the source of Spanish accounting standards. These standards are meant to make sure that financial statements are dependable, comparable, and accurate. The fundamental advantage of implementing Spanish accounting standards is that they give businesses a framework for transparently and consistently reporting their financial performance.
- **Audit Requirements:** Spanish law mandates that all businesses maintain accurate records consistent with their operations, including an inventory book and annual reports.
- **Tax Returns:** Spanish companies are subject to a number of tax laws and regulations, which include the requirement to file regular tax returns, pay taxes on schedule, and keep correct records of all financial transactions.
- **Company Bylaws:** The company bylaws, which outline the operations the company will pursue and its internal decision-making process, must be drafted.
- **Bank Account:** An organization must open a bank account in Spain and deposit at least €3,000 into it. The bank account statement is required to be supplied as evidence that the necessary capital is present.

Employment and Labor Laws

- **Workers' Statute:** The Workers' Statute is the primary item of employment law in Spain (Estatuto de los Trabajadores). It controls numerous facets of individual and group employment relationships, such as contracts, working hours, paid time off, and salaries.
- **Employment Contracts:** In Spain, employment agreements can be verbal or written, with the exception of those dealing with specific labor relations, temporary employment agreements, and agreements for part-time work.
- **Working Hours:** In Spain, a workweek cannot be longer than 40 hours, and a day's worth of work is limited to a maximum of 9 hours unless otherwise stipulated in a contract. Each working day must be separated by at least 12 hours in accordance with Spanish labor legislation.
- **Paid and Unpaid Leave:** Paid and unpaid leave, such as vacation time, sick days, maternity and paternity leaves, and parental leave, are all covered by Spanish labor law.
- **Social Security and Tax:** Employers are obligated to make contributions to the social security system in Spain, which offers advantages like healthcare, pensions, and unemployment benefits. Employers are required to deduct taxes from employees' paychecks and pay them to the appropriate tax authorities.
- **Protection from Discrimination:** Discrimination is prohibited in the workplace based on gender, age, race, religion, sexual orientation, and disability under Spanish labor laws.



How we can help?

Our team of professionals are specialized in helping companies to do business in Spain. Our team has extensive experience working with foreign companies in Spain and can provide tailored solutions to meet business needs.

Our team can help you connect with regional companies, professional organizations, and possible Spanish partners. This can assist companies in forming beneficial connections and working together to grow their operations.

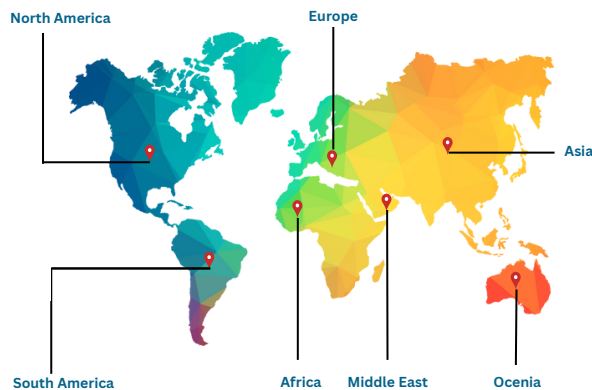
Our team can provide consultancy on the regulatory framework for automotive sectors, and automotive companies to drive efficiently, unlock new value, improve the customer experience, and generate new business models.

Our team consults in the business complies with all applicable laws and regulations, including consumer protection, labor, product safety, and environmental laws.

Our team will consult in obtaining the necessary licenses and registrations to operate legally in the jurisdiction. Furthermore, product liability insurance can also help businesses with licensing and registration requirements.



SERVING CLIENTS WORLDWIDE



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