ONE LIFE

Spanish Solidarity Tax

An overview of what it is, when it was introduced, to whom it applies and its impact

What and when?

In the last quarter of 2022, the Spanish Central Government introduced, for a transitory period of 2 years, the so-called Solidarity tax, which "mirrors" in essence the Spanish "Wealth Tax" and aims at harmonizing the actual tax impact across all Spanish regions.

The Solidarity Tax has been approved at State level and no regional tax credits or exemptions will be applicable to the contrary of Wealth tax where regions have a substantial legislative leeway in order to establish the latter with respect to individual tax payers with habitual residence in their own regions.

- As a result, residents in Madrid or Andalucía may be severely affected by the new tax as those regions have totally exempted, in practice, the applicability of Wealth tax for their own residents
- For residents in other regions and where Wealth tax is already effectively paid, the negative impact may be lower as the new tax measure allows to deduct from the tax liability any potential Wealth tax effectively paid at regional level

For whom?

The tax applies to Spanish resident individuals.

The tax applies when the tax base of the tax payer exceeds EUR 3 mio with a marginal tax of 3.5% for amounts exceeding EUR 10.695 mio:

Tax base	Tax rate
EUR 3mio to EUR 5,347mio	1.7%
EUR 5,347mio and EUR 10,695mio	2.1%
Above EUR 10,695mio	3.5%

Example

Context:

- residence in Andalucía
- a net wealth of EUR 5 mio
  (i.e. we assume taxable basis for Solidarity Tax purposes)
- a yearly (taxable) income of EUR 350.000*

The region of Andalucia applies a tax exemption on the Wealth tax liability

* *We assume a yield of 7% on the net wealth of EUR 5 mio which is generated as taxable passive income for the taxpayer, i.e. EUR 350.000*

Solidarity tax in this example = EUR 34.000

(note: the joint-limit scheme still applies for the new tax)

Without policy

- EUR 85.880 in Income tax
- EUR 34.000 in Solidarity tax
- The upward limit set by law (rule of 60%) is 60% of EUR 350.000 which is EUR 210.000, so there is no reduction on Solidarity tax available.

The Income + Solidarity Tax = EUR 119.880

The Income tax impact affects negatively the performance of the financial portfolio (overall) as the net positive return to be invested in the portfolio account will always suffer a partial and unavoidable loss represented by the yearly tax impact.

With policy

- EUR 0 in Income tax (yearly tax deferral)
- EUR 34.000 in Solidarity tax.
- The upward limit set by law (60% rule) is 60% of EUR 0 as no taxable income would be generated*

Solidarity tax charge could be reduced up to 80% as provided in the law + the tax benefit provided for Income Tax purposes by the tax deferral feature of the policy

If no withdrawals are made, the Income Tax liability would be nil (i.e. tax deferral) for any income accrued under the Policy.

The liability in Solidarity tax amounting to EUR 34.000 could be reduced to EUR 6.800 in a scenario where the taxpayer does not accrue any taxable income.

** unless withdrawals are made*

Conclusion

Implementing a policy planning may well help many clients which will be adversely affected by the introduction of the Solidarity charge, especially in those regions where the regional Wealth Tax did not have any practical effect before

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https://vimeo.com/the1lifeco

ESSENTIAL WEALTH

(+352) 45 67 301
info@onelife.com
onelife.com

The OneLife Company S.A.
38 Parc d'Activités de Capellen·BP 110·L-8303 Capellen·Luxembourg
RCS Luxembourg B34.402

ONE LIFE
GROUPE APICIL