Canary Islands Economic and Tax Regime
Main amendments (2015-2020)

January 2015
Principles of the Canary Islands Economic and Tax Regime

The Canary Islands Economic and Tax Regime (ETR) is expressly recognised and has its basis in the Spanish Constitution (Article 138.1 and Additional Provision Three), as well in the Canary Islands Statute of Autonomy, and is a result of the particular historical and geographical features of the archipelago.

Objectives

- To promote the economic and social development of the Canary Islands.
- To compensate for their insularity and outermost location through specific and sufficient policies.
In the area of tax, the regime involves various special features:

**Direct taxation**
- Canary Islands investment reserve
- Canary Islands Special Zone
- Investment tax credits
- Reduction for the production of tangible goods
- Regime applicable to the Canary Islands free trade zones
- Special register of ships and shipping companies

**Indirect taxation**
- Canary Islands indirect general tax
- Tax on the import and delivery of goods in the Canary Islands (AIEM)
- Special Canary Islands autonomous community tax on fuel derived from oil
- Tax on tobacco products
- Transfer and stamp tax
Canary Islands Special Zone
Main amendments (2015-2020)
The term for the Canary Islands Special Zone regime (which currently ends on 31 December 2019) has been extended until 31 December 2026 and the deadline for authorisation for registration under the regime will be 31 December 2020.

A series of reforms to create employment in the Canary Islands through the promotion of business activity and investment in the archipelago have been introduced.
The geographical scope of the Canary Islands Special Zone has been extended to cover the entire territory of the Canary Islands for all types of activities.

The subjective scope of the Canary Islands Special Zone is no longer limited, as it has been to date, to newly created legal entities but will also allow the registration of branches.
Canary Islands Special Zone. Main amendments

✓ The list of accepted activities has been extended significantly to favour job creation in more industries, as well as diversify investment and the business landscape of the Canary Islands.

✓ With respect to tax incentives, there has been a significant change with regard to income tax in relation to the tax base subject to the 4% reduced rate.

  • This special tax rate is now only applied up to a maximum amount of the tax base.
  
  • This limit has been increased, with the net creation of employment being the essential factor affecting the increase.
  
  • Specifically, the limit of the portion of the base subject to the tax rate is now linked to the number of jobs created and no distinction is made, as is the case under former legislation, between industrial or services activities.
Canary Islands Special Zone. Main amendments

<table>
<thead>
<tr>
<th>Net employment creation</th>
<th>FORMER REGULATIONS</th>
<th>CURRENT REFORM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Services activities</td>
<td>Industrial activities</td>
</tr>
<tr>
<td></td>
<td>Euros</td>
<td>Euros</td>
</tr>
<tr>
<td>Between 3 and 8 employees</td>
<td>1.500.000</td>
<td>1.800.000</td>
</tr>
<tr>
<td>More than 8 and up to 12 employees</td>
<td>2.000.000</td>
<td>2.400.000</td>
</tr>
<tr>
<td>More than 12 and up to 20 employees</td>
<td>3.000.000</td>
<td>3.600.000</td>
</tr>
<tr>
<td>More than 20 and up to 50 employees</td>
<td>8.000.000</td>
<td>9.200.000</td>
</tr>
<tr>
<td>More than 50 and up to 100 employees</td>
<td>18.000.000</td>
<td>21.600.000</td>
</tr>
<tr>
<td>More than 100 employees</td>
<td>100.000.000</td>
<td>120.000.000</td>
</tr>
</tbody>
</table>

NOTE: The figures in the above table were calculated taking into account the job creation in the islands of Tenerife and Gran Canaria (in the remaining islands the limits in the case of additional jobs to the minimum amounts will be EUR 1,000,000 higher).
The existing restriction on the application of the double taxation credit relating to dividends with respect to entities in the Canary Islands Special Zone, which arise from profit taxed at the 4% reduced rate, has been eliminated.

At the light of the former legislation, entities resident in Spain that received dividends or a share of the profits of entities in the Canary Islands Special Zone arising from profits that had been taxed at the reduced rate did not take the tax credit and, moreover, the income received was considered to derive first of all from the profits taxed at 4%.
Investment tax credit

Western Africa and export activities
Tax credit for investment in Western African territories and export activities

Objective

- To increase the investments in the Canary Islands aimed at facilitating the use of the archipelago as a privileged platform for exports to Western African countries.
Tax credit for investment in Western African territories and export activities

✔ The following tax credits have been created:

a) 15% of investments effectively made in the creation of subsidiaries or permanent establishments in Morocco, Mauritania, Senegal, the Gambia, Guinea Bissau and Cape Verde, with the following requirements:

• The subsidiaries or permanent establishments must be carrying on economic activities within one year of the investment being made.

• The investment must be kept, at least, for a period of three years.

• The tax credit must be taken in the tax period in which the subsidiaries or permanent establishments commence economic activities.

• There must be an increase in the average workforce in the Canary Islands in the tax period in which the tax credit is taken compared with the previous tax period and the increase must be maintained over three years.

• The tax credit must respect the limits of Article 39 of the Consolidated Spanish Income Tax Law (common rules on deductions).

• Ownership interests in subsidiaries must be held by entities with their tax domicile in the Canary Islands and must represent, at least, 50% of equity/participation of the subsidiary/permanent establishment.
Tax credit for investment in Western African territories and export activities

b) 15% of the advertising expenses projected over several years for the launch of products, the opening of, and prospecting for, markets abroad and attendance at fairs, exhibitions and similar events, including in this case those held in Spain with an international projection.
Tax credit for investment in Western African territories and export activities

✓ The aforementioned tax credits may be taken by the following taxpayers:

• Individuals who carry on economic activities in the Canary Islands.

• Entities subject to income tax that meet the following requirements:

  ▪ They have their tax domicile in the Canary Islands

  ▪ They obtained revenue of less than EUR 10 million in the immediately preceding tax period and in the case of newly created entities, in the first tax period in which they effectively commenced activities.

  ▪ They have an average headcount of under 50 employees in the immediately preceding tax period.
Tax credit for investment in Western African territories and export activities

- If entities do not meet the above mentioned requirements, tax credit will be 10% of the investment/expenses made if:
  - Entities’ obtained revenue of less than EUR 50 million in the immediately preceding tax period
  - Entities have an average headcount of under 250 employees in the immediately preceding tax period.
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