

HOW TO START A BUSINESS IN SPAIN

Individuals who want to begin a business in Spain must carry out processes in different administrations:

1.- TAX AGENCY. It's in charge of collecting different taxes that people are subject to because of their business activity. That's why you will have to register in the Tax Agency under the appropriate section according to your new business. Once you are registered, you will have to fill the following taxes:

VALUE ADDED TAX (VAT). VAT must be paid by all your clients and costumers as they are the final consumers. The general vat rate is 21%. You'll have to issue invoices for every operation you make in your business (every sale), so you'll have to increase price in the vat amount. Let's see an example:

You provide hairdressing services in your local and you set the price in 100 €. Your invoice will be the following:

| INVOICE | |
|-----------------------|------------|
| Hairdressing service: | 100 euros. |
| + VAT 21% | 21 euros. |
| ----- | |
| Total: | 121 euros. |

Your client will pay you 121 € for a service priced in 100 €. It's important for you to know that the VAT must be deposited to the Tax Agency every 3 months as vat doesn't take part in your service, but you must take it into account in order to fix prices.

By the other hand, if the activity that you develop allows it, all expenses invoices you have in your business (purchases, supplies, counselling...) that also charge vat (and you paid in the total amount of the invoice), will be deducted (the vat) from the amount you have to pay to the Tax Agency as your business is not a final consumer.

Let's see another example, based on the above one: if you have to deposit 21 € to the Tax Agency but you have a purchase invoice of 60,50 € (50 € more 10,50 € vat), you can do the following operation in your tax settlement:

| | |
|-----------------|-----------|
| VAT to deposit: | 21,00 € |
| VAT to deduct: | - 10,50 € |
| ----- | |

TOTAL AMOUNT TO DEPOSIT TO THE TAX AGENCY = 10,50 €.

PERSONAL INCOME TAX (IRPF). This tax is calculated over your business earnings with a simple operation: you add all your earnings and subtract all your expenses: if the result is positive, you'll have to deposit the 20% of that result in the Tax Agency every 3 months and if the result is negative, you won't pay anything and these losses will be compensated with future earnings. The amount paid is not an expense for you: is only a pre-payment of annual tax (IRPF) you'll have to fill. There are different modalities, the one shown is the general one, but our work is to find the more favorable for you.

2.- SOCIAL SECURITY. Individuals registered in the Tax Agency also has to register in the Social Security and pay the corresponding fee. This fee is like an insurance policy which covers health care and social benefits like retirement pension and sick leaves.

Nowadays the Government is negotiating the amount of the fees, but if this is the first time you register in the Spanish Social Security, you could enjoy the advantage of a 60 € monthly fee during the first year of activity. This reduced fee doesn't include unemployment assistance.

3.- PUBLICS AIDS. The region of Madrid offers a wide range of subsidies for individuals who start a business in Spain, but it's essential to be registered as unemployed in the Employment Agency before applying for the subsidy. Its amount depends on expenses required to start the business, with a maximum of 3.080 euros more 1.500 € to get fixed assets.

People receiving unemployment benefits also has advantages in order to start a business and can get taxes benefits.

4.- OTHER LIABILITIES. Sometimes is necessary to get permissions / licenses to develop your activity from the local authorities. We'll give you advise in case your business need this kind of licenses.

Our firm, "Abad Asesores Law Firm", is an office of lawyers and consultants of companies with more than 30 years of experience in legal advice and business consultancy.

We remain at your disposal to clarify any question you may have. Call us for further information or send an email to adminsitracion@abad-asesores.es.