RocaJunyent
Tax Alert

Tax Law Department
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The Government of the Madrid Region has prepared two Drafts of Laws seeking to approve two additional tax incentives to those already applicable to tax residents in the Autonomous Region of Madrid, relating to:

- A Tax Relief amounting to 20% of the value invested in debt and shares in companies' resident in any part of the World (only excluding certain Tax Haven).
- High tax benefits for young people (under 35 years) willing to move to the Community of Madrid.

Tax Relief of 20 % of the acquisition value of shares and debt instruments in entities

The Draft of Law provides that **not resident in Spain** who become tax resident in the Madrid Region as of 2024, could apply a regional deduction of 20% of the acquisition value of the **following financial assets** in companies, regardless of the territory or country in which those companies are domiciled (with few limitations only in case of companies from tax havens territories) and without it being necessary for them to be traded or quoted on an organised market.

In order for such a tax relief (20%) to be applicable, these are the only requirements:

i) Tax residence in the Madrid Region must be acquired after 1 January 2024, it is worth mentioned that the easiest way to gain the tax residency would be by spending in the Madrid Territorty at least 183 days during the calendar year.

ii) The acquire financial asset relate to:

  a. Debts, instrument or securities representing funds lent to third parties, whether or not traded on organised markets.

  b. Shares, participations, quotas or securities representing an investment in equity of any type of entity, whether traded or not.

iii) The investment must be held for 6 years, however in case of transfer, if the amount obtained were reinvested within one month the taxpayer would not lose the tax incentive.

iv) In the case of equity, investments in companies resident in tax havens are excluded from the tax benefit.

v) Likewise, in the case of investment in equity, the family group (up to the second level or degree) cannot, at any time, hold a shareholding over 40 percent, it is worth noting that even below this percentage the investor could be entitle for the tax benefits for family companies.

vi) The investor relocating their tax residency to the Region of Madrid cannot have a labour relationship, executive or management position with the entity.

vii) The investment must be made in the year of change of tax residence or in the following year.

viii) According to the Draft of Law, in the case of debt instruments issued by Spanish entities or shareholdings in Spanish companies, investment in the year previous to the change of residency year would also be admitted.

ix) The taxpayer moving to Madrid should not have been resident for tax purposes in Spain in 5 years prior to the change.

x) The tax credit can be carried forward for up to 5 years.

Finally, it should be noted that, as this is a deduction applicable exclusively to those paying Personal Income Tax, hence it might not be compatible with the Spanish Inpatriate Tax Scheme known colloquially as the “Beckham Law”.

To Remember

In order to acquire the tax residency in the Madrid Region in 2024, the tax residency change should be executed before July the 1st.

Investments eligible for deduction must be made in the year of change of residence and may be in companies resident in any country, tax havens are excluded only in few cases.

Additional new tax incentives: access to housing, mitigating the adverse effects of bank rate inflation and population growth in rural areas.

Another Draft prepared by the Madrid Autonomous Government envisages new tax relieves and incentives for tax residents in the Autonomous Community of Madrid aimed at (i) facilitating citizens’ access to housing, (ii) mitigating the adverse effects of the increase in variable mortgage rates, and (iii) inhabiting Madrid less densely populated municipalities and areas.

Deduction for renting empty dwellings

Taxpayers owning empty homes who rent them out during 2024 will be entitled to a tax credit of 1,000 euros from their Personal Income Tax (affecting only the Regional surcharge), subject, among others, to the following requirements:

- The property must have been vacant (unused) for at least one year prior to the new lease.
- The lease must be for a minimum period of three (3) years, shorter periods being permitted if it is put up for rent within six (6) months of termination.
- The tenant may not be a relative (up to third degree of kinship).
- The deduction is limited to a maximum of five (5) properties.

Deductions for taxpayers with a taxable income of less than 30,930 euros per family member

1. **Deduction for the increase in the interest cost of mortgages.**

A tax relief of 25% of the financial expense borne is introduced compared to that which would have resulted from applying the December 2022 Euribor.

- The purchase price of the property may not exceed 390,000 euros.

- The maximum amount of the deduction is 300 euros.

2. **Deduction for change of residence of people under 35 years of age to a municipality with low population.**

Taxpayers under 35 years of age who move their main residence to a municipality in the Madrid Region with less than 2,500 inhabitants could apply a tax credit of 1,000 euros in their Personal Income Tax return, affecting only to the regional surcharge.

It is a requirement to maintain the residence during the tax period of the change and the following three (3) tax years.

3. **Deduction for the purchase of a primary residence in municipalities with low population.**

Taxpayers under 35 years of age who purchase their main residence in a municipality in the Madrid Region with a population of less than 2,500 inhabitants will be able to apply a tax relief 10% of the purchase price to their personal income tax liability (affecting only the regional surcharge).

The property must be the main residence in the tax period of acquisition and in the following three tax periods.

The tax credit would be applied for a period of 10 years from the acquisition the annual deduction cannot exceed 1,546.50 euros (so the maximum price on which the deduction could be applied is 154,650 euros = 1,546.50 x 10 / 0.10).

4. **Reductions in the Transfer Tax (TPO) and Stamp Duty Tax (AJD).**

A person under 35 years of age who purchases a primary residence for a value of up to 250,000 euros in a municipality in the Madrid Region with less than 2,500 inhabitants may apply a 100% reduction on the tax liability for both the Transfer Tax (TPO) and, if applicable, the Stamp Duty Tax (AJD).

This reduction would be 10% for those taxpayers that are 35 years or older.

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For further information you can contact our *professionals of the RocaJunyent Tax Department in Madrid, Barcelona and Girona.*