

# **ENTREPRENEUR'S GUIDE FOR SPANISH MARKET**

## **HOW TO SET UP A BUSINESS IN SPAIN**

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## Introduction

Each year thousands of foreign entrepreneurs decide to set up a business in Spain. Some just travel alone with nothing more than a good idea for a business and their savings. The other potential entrepreneurs need to develop a detailed plan, secure financing and investigate industry. You will discover that starting a business requires answers to numerous questions. Once the business started, you will also realise that you need regular concise information throughout the corporate life. The purpose of this entrepreneur's guide is assisting each foreign entrepreneur in the pursuit of business success in Spain.

The Entrepreneur's Guide for Spanish Market is a seven-step framework to handle foreign entrepreneurs setting up their business in Spain. It is a resource for entrepreneurs on starting up and business planning in Spain. Starting your own business is not just about having a good idea. There are real steps to ensure your business a successful start. So, what are all the elements you should consider when you are launching your new business? You will have to get startup and entrepreneur advices that you need about company formation, processes and procedures, Spanish taxation, and effective implantation of your company in Spain.

This entrepreneur's guide was thought and written to recount your process step by step, that is why it is divided into four parts. The first one is the part that we could call "pre-creation steps". It highlights the work that you must do before creating your company. The second part describes all steps that you need to perform as well as all documents required to set up a business in Spain. The third part deals with Spanish tax matters like corporation tax, income tax, and welfare costs for self-employed entrepreneurs in Spain. Regarding the fourth part, it concerns all the "post-creation steps" whose the purpose is the effective implementation of your company in Spain. This part will provide you all the necessary information to optimize the launching of your new business in Spain.

## I. Developing Your Project to Create a Company

### 1. Writing Your Business Plan

A business plan is a written description of your business's future. This document describes what you plan to do and how you plan to do it. Business plan is inherently strategic. Your plan explains how you will get from here to there. Where do you want to be? Will you be running a business that hasn't increased significantly in size? Or will you command a fast growing empire? Answering these questions is an important part of building a successful business plan.

The following paragraphs will describe in detail the four essential sections of the business plan:

- Company description

This high-level view of your company should explain who you are, how you operate and what your goals are. The company description should feature the legal form of your business, the nature of your business and the needs you plan to satisfy, an overview of your products/services, a summary of company growth, including financial or market highlights, and a summary of your short-term and long-term business goals.

- Market Strategy

Market strategy is the result of a meticulous market analysis. A market analysis forces you to become familiar with all aspects of the market so that the target market can be defined and the company can be positioned in order to garner its share of sales.

The marketing strategy section of the business plan describes who the customers are and how you will get word to them about the goods and services you offer. The marketing strategy part of your business plan will include the market segmentation, competitive analysis and all other selling strategies. This section may require many pages, as well as, charts and graphs. Ads, brochures or other marketing materials can be included in the Appendix of the business plan.

- Operations & Management Plan

When writing the business plan, the operating plan section describes the physical necessities of your business' operation, such as your business' physical location, facilities and equipment. Depending on what kind of business you'll be operating, it may also include information about inventory requirements and suppliers, and a description of the manufacturing process.

In this section, describe how your product or service will be made, and identify the problems that may occur in the production process.

Then show your awareness of your industry's standards and regulations by telling which industry organizations you are already a member of and/or which organizations you plan to join, and telling what steps you've taken to comply with the laws and regulations that apply to your industry.

Explain who your suppliers are and their prices, terms, and conditions. Describe what alternative arrangements you have made or will make if these suppliers let you down.

- Financial plan and projections

An outline of your company's growth strategy is essential to a business plan, but it just isn't complete without the numbers to back it up. A business plan is all conceptual until you start filling in the numbers and terms. The sections about your marketing plan and strategy are interesting to read, but they don't mean a thing if you can't justify your business with good figures on the bottom line. You do this in a distinct section of your business plan for financial forecasts and statements. Basically, the financial plan section consists of three financial statements, the income statement, the cash flow projection and the balance sheet and a brief explanation/analysis of these three statements.

## 2. Raising Capital

You have the idea and you have a plan. But you can't start a business without a little cold cash. If ever you have it, you can invest your own funds, but if it is not your case, you will need a little help.

Bank loans are the primary source of financing for small and medium enterprises. Banks may agree to finance up to 75% of initial costs for starting the activity. However, for larger projects requiring long-term loans, the interest of the bank is generally limited to the amount of capital contributed by the company's owner.

You should know that Spanish banks are more cautious due to the economic environment. If you want to get a loan, you have to provide some guarantees. However, to facilitate access to loans for small and medium enterprises, there is a project funded by the Spanish government called ICO loan. In this way, SMEs can get a loan up to 70% of the net investment, and if you have no other loan or grant, you can also apply for a micro-credit facility, increasing to 95 %. This loan can benefit from reduced fixed rates.

The entrepreneur can also turn to private investors. They will therefore be included, usually for a limited period, in the share capital of the company. They can be a very important source of funding if they believe in your project, but they will ask for reports on the activity and return on investment.

### 3. Choosing Your Legal Status

Today, there are many foreign entrepreneurs who choose to create their companies in Spain. To do business in Spain, there are three main options: being self-employed or choosing one of the two types of limited company (limited liability company "Sociedad Limitada" or corporation "Sociedad Anónima").

Choosing a legal form for your business affects how much you pay in taxes, who can invest in your company, and most importantly, your own personal financial security.

#### ▪ **Sociedad Limitada (SL)**

A start-up capital of 3,006 Euros is required for the incorporation of an SL. This can be withdrawn immediately after the creation of the company. The responsibility is limited to the capital invested by the shareholder(s). The number of shareholders is a minimum of one

individual and the law does not specify a limit to the number of shareholders. When the company has a single shareholder is described as a SLU “Sociedad Limitada Unipersonal”.

Regarding legal personality, the company must be constituted in front of a public notary and entered in the Spanish Companies Register “Registro Mercantil”.

The legal status of Limited Liability Company has gained popularity as a result, among other reasons, of its comprehensive regulation under Act 2/1995 and a lower minimum capital requirement than that for S.A.’s.

- **Sociedad Anónima (SA)**

A start-up capital of 60,102 Euros is required for the incorporation of an SA, a fourth of which must be paid at the point of incorporation. There is no legal time limit specified in which the remaining capital must be paid into the company. The responsibility is limited to the capital invested by the shareholder(s). The number of shareholders is a minimum of one individual and the law does not specify a limit on the number of shareholders. When the company has a single shareholder is described as a SAU “Sociedad Anónima Unipersonal”.

With regard to legal personality, the company must be constituted in front of a public notary and entered in the Spanish Companies Register “Registro Mercantil”.

By default decisions can be made by a simple majority of shareholders, but the company’s articles can be modified in order to raise the level of majority required for decision-making.

## **II. Seven Steps to Create a Company in Spain**

### **1. Tax Identification Number for Foreigners (NIE)**

Getting a NIE (Tax Identification Number for Foreigners) is the first step to create a company. The NIE is a tax identification number assigned to any individual non-Spanish citizen. A NIE number is required to open a bank account, buy or sell a property, pay taxes, be paid for employment, apply for a business permit and start a business in Spain.

In order to request a NIE, you have to go to the Spanish administration and several documents must be completed. You should come with a formal proof proving the requirement of a NIE.

Indeed, Spanish administrative procedures can be complex; that is why TAS Consultoria can handle the request for your NIE and all necessary steps to obtain it. Thanks to its experience and presence in Barcelona, TAS Consultoria usually manages to get a NIE in one day.

## 2. How to Name Your Company

In order to choose the name of your firm, firstly you need to write a list of five names. Then, you must submit this list to the Spanish Companies Register which will check if those names are available. It will take three or four days for the Spanish administration to give you an answer. In case none of those names are available, you will have to change the names you have previously selected or write a new list that you will submit back to the Spanish Companies Register. At the end of this step you will receive a certificate name.

## 3. Tax Domicile of Your Business in Spain

If you want to set up your business in Spain, a Spanish tax domicile is required. This can be premises that you rent, an apartment, or the office of your Spanish consulting and accounting firm.

TAS Consultoria, a consulting and accounting firm, can provide you a service of tax domicile which is essential for the effective implementation of your business in Spain. In this case, your company will be domiciled in Spain at the address of our office in order to allow you to receive all the notifications from the tax and social administrations. However, to obtain a VAT number, it is mandatory that you rent your own premises in Spain.

In case you want to rent your own premises and have your own tax domicile in Spain, the team of TAS Consultoria's experts can advise you and assist you in the process to find premises but also in the negotiation of the rental contract.



You must also declare to the Spanish Companies Register a corporate domicile that is to say, the place of production of the goods or services. The corporate domicile of your company may be different from the tax domicile.

#### 4. Drafting Company's Statute

The statute of a company sets the legal and tax rules which manage the company and the responsibilities of the chief executive officer. This document includes some mandatory information such as:

- Company name or corporate name
- Company's field of activity
- Registered address of the head office
- Amount of the capital of the company
- Conditions of assignment or transfer of shares
- Name of the chief executive officer and his responsibilities
- Name of the partners and their respective number of shares
- The signatures of the partners (if several partners)

It is recommended to surround yourself with experts to draft the statute of your company in order to avoid inconsistency or omission which could have serious consequences. Do not hesitate to ask advice or opinion from experts such as the team of TAS Consultoria.

#### 5. Creating a Company Before a Notary

In Spain, it is compulsory to create the company before a notary. When you will create your business before a Spanish notary, you will need to submit the corporate purpose, the statute and the domicile of your business. You should know that in Spain the advantage is the corporate purpose can be very broad. Indeed, a company in Spain may have in its statute different types of activities. Afterwards you will need to contact the Spanish tax administration in order to report the activity actually chosen.

If the Spanish language is a barrier for you, do not hesitate to use the services of a Spanish consulting and accounting firm which can assist

you in the legal steps. TAS Consultoria's experts speak fluently English, French, and Spanish.

#### 6. Creating a Bank Account

Once the company is created before a notary, you must go to the bank to open a personal and a professional bank account in Spain.

The four major banks in Spain are Santander which is also one of the largest banks in Europe, Caixa which is a mutual fund, BBVA which essentially works with Latin America, and Sabadell which is a merchant bank for business leaders and it is the most suitable for foreign investors.

#### 7. Intra-Community VAT Number

Obtaining an intra-Community VAT number is required by European law. The intra-Community VAT number allows to charge from Europe and to be exempt from VAT when billing for certain products and services. In this case, must be included on the invoice you intra-Community VAT number as well as the one of your client. Remind you it is essential that your business, but also your clients' business, must be located in the European Union.

In order to obtain an intra-Community VAT number in Spain, it is important to prove to the Spanish tax administration that the service is performed from Spain. Indeed, the company must have a physical presence in Spain. It is possible to justify the physical presence with the renting of premises in Spain and, if necessary, an employee working there.

The deadline for obtaining intra-Community VAT number is more or less three months and will be subject to inspection by a representative from the Spanish tax administration.

### **III. Taxation in Spain**

#### 1. Your accounting and tax obligations

Spanish companies with SL as legal statute must keep their accounts. They also have to submit quarterly and annual tax returns to Spanish tax

administration. You should know that the filing of annual accounts in the Companies Register is required to be in compliance with the Spanish tax system.

It is also important to know that the accounting standards in Spain are different in certain respects. The accounting and the taxation of a company must be in compliance with the Spanish standards. The team of chartered accountants and tax experts of TAS Consultoria offers its experience and expertise to manage your tax and accounting obligations while getting the best possible rebates and deductions.

## 2. Corporation Tax

The corporate tax rate in Spain is quite advantageous. There are different rates for the corporation tax in Spain:

- First rate: for new creation companies, that is to say, created from 1 January 2013, the corporation tax will rise to 15% for the first 300,000 Euros of profit and 20% for the rest.
- Second rate: this rate is applied to a smaller company whose the turnover does not exceed 5 million Euros and the actual workforce is less than 25 employees. This company will pay, in the case, lower taxes. It will be applied the reduced rate of 20% for the first 120,202 Euros of profit; the rest will be taxed at 25%.
- Third rate: it concerns companies whose the turnover does not exceed 8,000,000 Euros. The company will pay 25% for the first 120,202 Euros of profit; the rest will be taxed at 30%.
- Fourth rate: it is applied to all other companies. For them, the full rate of 32.5% will be applied to their profit.

## 3. Income Tax (IRPF)

In Spain, the income tax is deducted at source. It is the company which pays the income tax of their employees taking on their gross pay. The calculation of the Spanish income tax is complex because it includes all of the income of an individual, then the deduction of certain business

expenses but also some potential reductions based on family status. There are seven tax brackets:

Income	Rate
From 0€ to 17,707€	24.75 %
From 17,707€ to 33,007€	30 %
From 33,007€ to 53,407€	40 %
From 53,407€ to 120,000€	47 %
From 120,000€ to 175,000€	49 %
From 175,000€ to 300,000€	51 %
More than 300,000€	52 %

#### 4. Taxes and welfare costs for a self-employed entrepreneur

Welfare costs for a self-employed entrepreneur in Spain amounted to 29.80% of his salary. However, the entrepreneur must estimate himself his contribution base. For example, an entrepreneur with a monthly salary of 2,000 Euros will pay 29.80% of 2,000 Euros that is to say a monthly amount of 596 Euros. However, if he wants to contribute less, he can choose to contribute on the basis of the minimum wage that a self-employed entrepreneur may declare (858.60 Euros). Therefore he will pay a monthly welfare cost of 255.86 Euros.

As a result of the new measures implemented by the Spanish government in February 2013, an entrepreneur under 30 years pay only 50 Euros of welfare costs during the first six months and 179.10 Euros during the next ten months.

Regarding the income tax for a self-employed entrepreneur in Spain, the income tax rate is fixed but it can vary according to the field of activity.

## **IV. Effective implementation of your business in Spain**

### **1. Renting Premises**

You must rent premises in order to domicile your company and work as a professional in Spain. The commercial lease in Spain has its own legislation. The lease covers commercial premises. It governs the relationship between the tenant, named lessee, and the owner of the premises, called the lessor.

Since 1<sup>st</sup> January 1995, the commercial lease is governed by the Ley de Arrendamientos Urbanos. With regard to commercial leases, the law provides a complete contractual freedom for both parties. The contract will be governed primarily by what has been agreed by the parties and, failing that, by the law.

The commercial lease must indicate precisely the identity of the lessor and the lessee; it must also include a description of the premises, the validity of the contract, the amount of the rent agreed by the parties, and all the clauses agreed.

The contract must be determined by the parties. There is no limit prescribed by law. Otherwise, the validity of the lease will be only considered for one year.

Concerning the payment of the rent, it is generally the first week of each month. The amount, the place and form of payment must be defined by the parties in the contract.

Unless agreed by the parties, the deposit will be equal to two months' rent. The deposit and the rent may be reviewed after five years.

### **2. Vehicle Registration**

In case you want to register your vehicle in Spain, this process can be lengthy, complex, and expensive as well. TAS Consultoria can carry out all the steps and help you with administrative procedures.

The different taxes depend on the Comunidad Autónoma where you live in Spain, but also the vehicle model and the year of first circulation.

The demand to change the registration of your vehicle must be filed up in the provincial Jefatura de tráfico. You will fill up the official form "Solicitud de matriculación", provide the documents required for registration, and pay a registration fee.

You will also carry out a technical inspection of your vehicle in Spain called ITV. At the end of this control, they will give you a card certifying the compliance of "good health" of your vehicle and a "Certificado de características del vehículo". This certificate has a cost that will be added to the technical inspection of your vehicle. ITV centers are private companies, prices may vary.

You will also have to pay the "Impuesto sobre Vehiculos de Tracción Mecánica". Rates vary depending on the municipality and the rate horsepower of the vehicle.

## **Conclusion**

Do you want to create your company? Do you want to set up your business in Spain? Or do you want to be a self-employed entrepreneur? TAS Consultoria is a consulting and accounting firm located in Barcelona (Spain). Specialized in company formation since 1979, TAS Consultoria offers its experience and expertise to advise and support foreign entrepreneurs in handling their own business project into the Spanish market. The team of TAS Consultoria is composed of experts who will support you in all administrative procedures in Spain such as the request of your NIE, the creation of your company before a notary, the declaration to Companies Register, the opening of a personal and professional bank account, and the request of an intra-Community VAT number. The team of chartered accountants of TAS Consultoria will take care of your Spanish accounting. As for the tax experts, they will take over the fiscal management of your business in Spain. They will be present to advise you and optimize your taxes.