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# *The Canary Islands* An European Business Hub

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***The Canary Islands Special Fiscal Regime has been approved by the EU Authorities***

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## ***Overview***

The Canary Islands have the strongest and safest group of tax incentives which is available in developed countries: its Special Economic and Fiscal Regime (REF). This tax regime is considerably more advantageous than other European tax regimes which have been traditionally considered as low - taxation regimes (like the Irish one) and can be used well by foreign companies to optimise its tax structures.

It tries to stimulate and diversify the economy of the Canary Islands stating a very low direct and indirect tax pressure. It has been specially designed to attract foreign investments, is fully authorized by the European Union authorities and is the best way to invest around the world (Africa, South America, etc...)

## *Highlight of tax benefits in the Canary Islands*

- **4% corporate tax rate (in the Canary Islands' special economic zone "ZEC")**
- **Tax free dividend distribution (withholding tax)**
- **Refundable tax credits (with cash back option) of up to 75% for R&D activities and 35% for audio-visual productions**
- **Further tax allowances for manufacturing tangible goods**

**High compatibility  
between tax breaks**

# The best tax system in the EU, with a 4% corporation tax rate

As an EU outermost region, the Canary Islands have an Economic and Tax System (REF) of their own fully approved by the EU, which applies double taxation conventions and fiscal transparency

**PLUS:**  
Refundable tax shields of:  
- 45% for tech innovation  
- up to 78% for R&D



The Economic and Tax System offers incentives to the creation and development of companies established in the Canary Islands

## EU CORPORATE TAX RATES



The opportunity to pay lower Corporation Tax rates

- ➔ 4% fixed Corporation tax rate for ZEC companies
- ➔ Reduction of up to 90% of non-distributed net profit from taxable base (RIC)
- ➔ 50% Allowance for production of tangible assets
- ➔ Tax credit for investments in strategic sectors more advantageous than in the rest of the Spanish territory

Multiple tax exemptions in INDIRECT TAXATION

- ➔ For forming a company
- ➔ For the increase of capital
- ➔ For the acquisition of investment property
- ➔ General rate of Canarian VAT (IGIC): 7%

Setting in a FREE TRADE ZONE entails exceptional economic advantages

- ➔ Economic advantages for import, export and inward processing of goods

## *A safe harbor*



## **MAXIMUM GUARANTEE OF LEGAL SECURITY**

Integrated in the **European Union legal system**, the Canary Islands offer total guarantee in the matter of security and protection to individuals and companies

### **Full application of the EU legal system:**

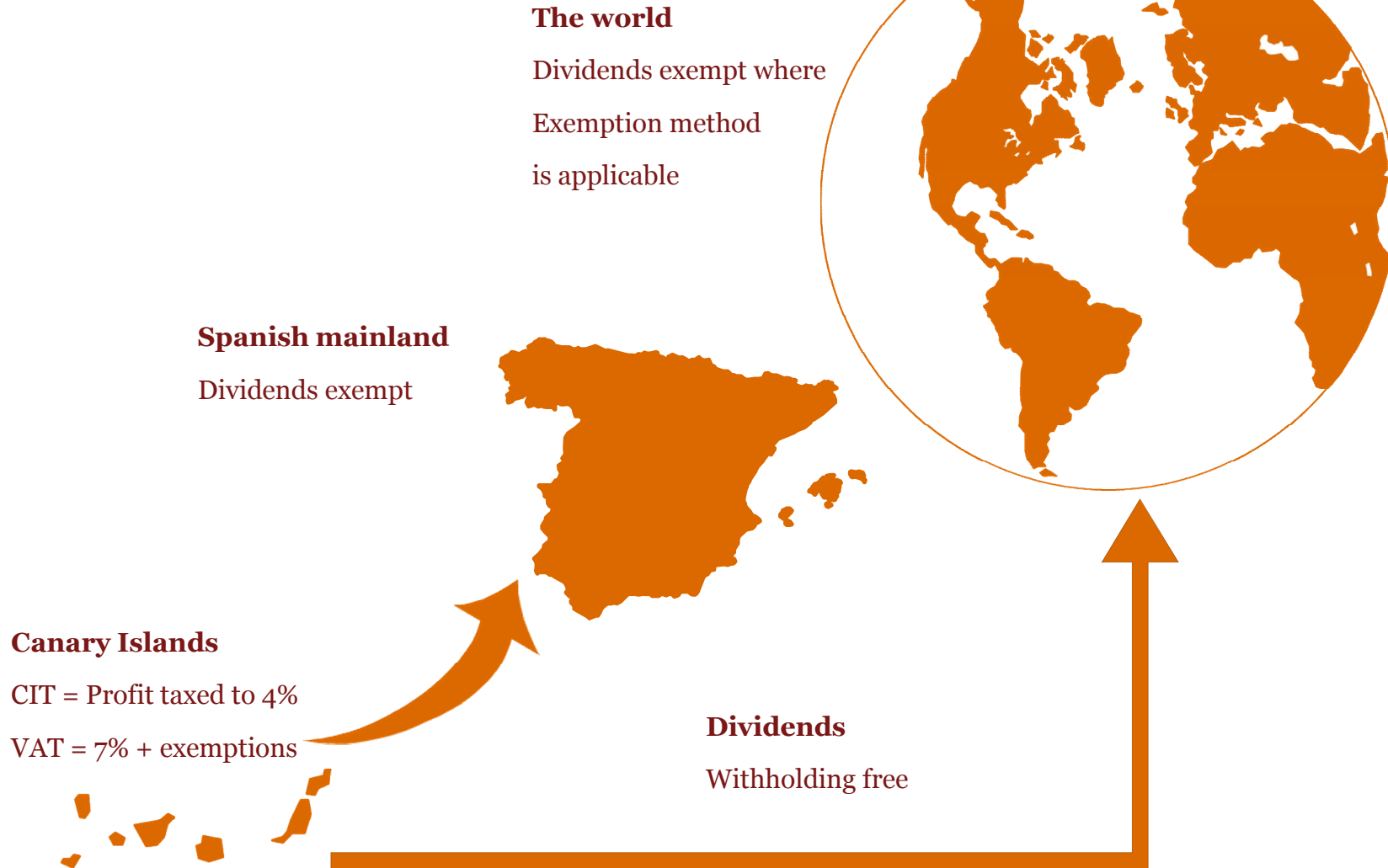
- Data protection
- Free competition
- Financial regulations

### **We are familiar with all the international anti-corruption measures:**

- US FCPA Due Diligence



# International tax structure

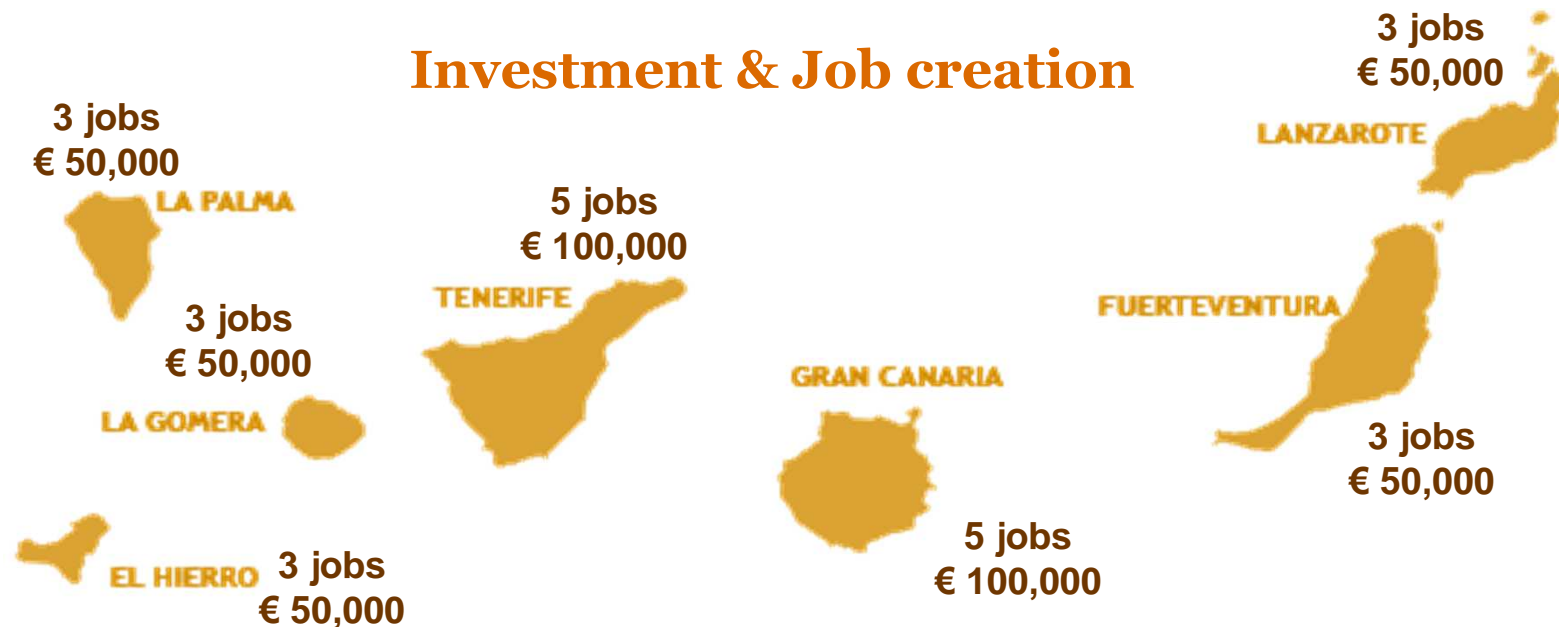


## ***Zoom-in on the Canary Islands Special Zone (ZEC)***

- **Low-tax regime**
- **Created within the framework of the Canary Islands Economic & Fiscal Regime (REF) which comprises a wide range of economic and tax incentives**
- **Authorised and guaranteed by the European Commission**



## Requirements to become a ZEC Entity



### Other conditions:

- The entity must be newly-created, BRANCHES are permitted
- Self-contained activity
- One of the administrators must be resident in the Canary Islands



# In addition to ZEC: R&D&TI Tax Credits in the Canary Islands

## What is the tax credit amount?

	Amount	Base
R&D	45%	<ul style="list-style-type: none"> <li>• Staff costs</li> <li>• Subcontractors</li> <li>• Amortisation</li> <li>• Other expenses</li> </ul> <p>Directly related to the activities carried out until the creation of the first prototype</p>
	+37%	
	Full-time researcher salaries	
	+75,6%	
	Excess over last two year average expense	
	+28%	
	Equipment investment	
TI	32%	TI

## In addition to ZEC: R&D&TI Tax Credits in the Canary Islands

- **Deduction to tax payment limited to 90% in the Canaries** (25% or 50% in the rest of Spain)
- **However, under certain condition** (if the R&D / TI tax credit is reinvested – tax benefits reinvestment- and R&D/TI related jobs are kept constant) **the tax credit can be refunded by the Treasury in advance – cash back option** (with a 20% haircut).
- Needs previous request, to be cleared by the Ministry of Economy - binding Ministry certifying report – (on the other hand, this mechanisms provides legal certainty).

### EXAMPLE 2016: R&D + TI center

- Corporate income tax (CIT) before any deduction: 0.25M€ (assumes 1M€ profit)
- R&D expenses: 3.9 M€
- TI expenses: 1 M€



#### Deductions:

- R&D :  $3.9 \times 75.6\%^* = 2.95 \text{ M€}$
- TI:  $1 \times 45\% = 0.45 \text{ M€}$
- Total deductions = **3.4 M€**
- Tax credit =  $0.25\text{M€} \times 90\% = 0.225 \text{ M€}$
- CIT to be initially paid = 0.025M€



**Company requests cash back** (x80%, since 20% haircut applies):  $(3.4 - 0.225) \times 80\% = 2.54 \text{ M€}$  refund



- **Cash back of 2.515 M€** (2.54 refund - 0.025 CIT)
- **Total savings of 2.74 M€:** (0.225 tax credit + 2.515 cash back)

- \* Case of 1<sup>st</sup> year of R&D center 75,6% applies (following years 45%, unless increasing the media. This increment would have again the referred 75.6%)

**56% of total costs saved!**

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