

Comprehensive Guide to Buying Property in Spain

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I. Choosing a Property to Final Completion

Our Sales Advisors are trained to interpret your requirements and subsequently show you a selection of properties. The Advisor will also inform you about the particular merits of certain locations over others, again based on your (and your family's) requirements.

Once you have become interested in a particular property, the Advisor will help you ascertain the ongoing expenses of the property- community fees, rubbish collection, water rates, electricity charges and annual real estate tax.

We will also advise bringing in a lawyer prior to formalizing an offer. The lawyer will complete his searches and investigations, ensuring according to Spanish law that the property is free of encumbrances, debt and that all the community charges have been paid. Otherwise these will be passed to you, the new owner.

Exchange of private contracts can take place within two weeks of the seller accepting the offer. The contract will include all the agreed terms as negotiated with the help of our Sales Advisor and in some cases the lawyer.

It is customary to pay a deposit to protect the seller against non-completion on the purchaser's part. Typically this is between €3,000 and €10,000. This is subject to negotiation which you Sales Advisor will assist you with.

Final completion is formalized when the public title deeds are signed before a Notary. A note of the title deeds is then faxed to the local land registry.

Final registration of the deeds may take up to two months. During this time, the lawyer will pay all relevant transfer taxes on your behalf and arrange transfer of accounts with utilities through your chosen local bank.

Property Options can recommend local English-speaking lawyers specialised in property purchases by foreign residents and non-residents of Spain. Please contact us to find out more.

II. Obtaining a Mortgage

Documentation required:

- Photocopy of the buyer's income tax returns
- Salary slips
- A breakdown of the buyer's assets and liabilities
- Last month's bank statements
- Statement of accounts – in the buyer is self-employed

You are free to obtain a loan or a mortgage for your Spanish property/investment in any currency and from any bank in the world.

Spanish banks offer non-resident mortgages at very competitive rates. Banks will typically lend up to 70% of the bank's valuation of the property and extend the period of the loan to 20 years (depending on age). This is flexible.

You will need to provide proof of ability to repay by showing that your monthly earnings are over three times the monthly mortgage payment.

Property Options recommends a Marbella based, International Mortgage Advisor. Contact us to obtain further details.

III. Inheritance Tax

Wills

We highly recommend making a Spanish will you want your estate to be distributed as you choose. The alternative being that your estate will be disposed of according to Spanish Law.

Exclude Spanish assets from your main will (or any other non-Spanish will) to save your heirs going through lengthy and expensive legal processes – which are ultimately subject to the Spanish court's ruling.

Tax Free Allowance

The tax free allowance is €15,362 for inheritance by immediate family. An additional exemption is given for each year the inheritor is under 21 and remains at €16,086 from 13 years old and younger.

Uncles, cousins and nephews' exemption is €7,380 and more distant relatives receive no exemption.

After allowances, the tax rate varies on a sliding scale from 7.65% for €0 to €7,693 to 34% for €768,093 and above. This scale increases for beneficiaries who are not family.

Minimising Liability to Inheritance Tax

One popular method is to set up a family trust or corporation where the family members are shareholders and part or all of the family wealth is passed to the company. A small amount of tax is incurred when one member of the family dies.

Non-residents can also choose to benefit from forming an offshore holding company or other suitable trust instrument combined with a will made outside of Spain.

N.B. Spain has levied a special tax of 3% on the rateable value of the property held by an offshore company registered in a Tax Haven without a double taxation treaty with Spain.

This again can be avoided with the help of specialist legal advice.

These methods may sound complicated, however given the right advice are proven methods of saving time, hassle and money.

A simple solution is to place more of your immediate family on the title deed. This way you increase the number of tax-free allowances and reduce the overall tax bill to your beneficiaries. The potential disadvantage being that permission from names on the title deed must be given should you wish to sell the property.

IV. New Construction

Buying pre-construction has many benefits (see below), though nothing comes entirely for free and a small amount of additional care should be taken.

Obtain bank guarantees through the developer – none offer this free of charge whilst others make a percentage charge. This ensures you get your money returned should the project be delayed or never even starts.

Potential Gains and Costs

Advantages of buying Pre-Construction (Off-Plan)

Developers typically sell off-plan property for 15% below the market rate in order to generate cash flow. Strong profits can be enjoyed, particularly when the property is sold on prior to completion of construction, thus avoiding capital gains taxes.

Example Payment Terms and Profits

3 bedroom, 3 bathroom apartment	€360,000
Reservation fee (payable immediately)	€6,000
Signing of contract 30% (less reservation paid)	€102,000
Nothing to pay during construction	
Final payment or mortgage	€252,000

Should you wish to sell before the final payment to maximise tax free profits, the price of your property would only have to increase by **10%** over the construction period of nine months, in order for you to make a very healthy **33%** profit on your outlay.

Furthermore, build quality today is excellent – in fact there is a ten-year statutory guarantee provided to safeguard against structural defects.

V. Breakdown of Costs

Fees

Legal Fees		1.74%* ie.1.5% + IVA@ 16%
Notary Fees	Fixed by law and increases with the price of the property	€300 to €841
Property Registry		≅ 40% of notary fees

Tax

One of the following will apply to your purchase

Transfer Tax (ITP)	For buying an existing property	7%*
IVA plus Stamp Duty	When buying from a promoter or developer	7% plus 1%*
IVA plus Stamp Duty	When buying parcels of land, commercial premises or garage spaces	16% plus 1%*

* of the property's value

Plus Valia is normally paid by the vendor, though this is negotiable. Use your Sales Advisor to help you with your negotiations. Should you as the buyer pay, the tax may range between €25 to several thousand Euros depending on the size of the property and amount of land.

N.B. Tax is payable on any rental income and capital gains when the property is sold. The UK Inland Revenue has confirmed that new rules will apply from April 2005 to existing properties and new purchases. The rules will allow the property to be transferred into a pension fund and rent and capital gains would roll up free of tax. There might be capital gains tax on the transfer to the pension but any other gains would be tax-free.

Other Costs

- Wills
 - Changing utility contracts
 - Fiscal representation
 - Community representation
 - Insurance
 - Water and electricity connection
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VI. Foreign Exchange

Even the smallest fluctuations in the money markets can make a big difference to the price you pay for foreign currency. This can make a lot of difference to the how much you pay for your house (and even your car, home improvements etc.).

Property Options recommend a specialist foreign exchange company with the service and strategies to help you get the best exchange rates. Contact us to find out more.
