

Our guide to ETVEs

ETVEs

ETVEs are Spanish entities dedicated to the holding and management of shares in non-resident entities, benefiting from a special tax regime. This regime grants an almost complete exemption on dividends or capital gains derived from holding or transferring shares in foreign companies, provided certain conditions are met.

Where is the ETVE regime regulated?	<p>The special tax regime for Holding Entities of Foreign Securities (ETVE) was introduced in Spain in 1995 to attract foreign investment, offering benefits similar to those in jurisdictions like Luxembourg and the Netherlands. Currently, the ETVE regime is governed by Law 27/2014, of November 27, on Corporate Income Tax, specifically Articles 107 and 108, in conjunction with Article 21, and Article 51 of Royal Decree 634/2015, of July 10, approving the Corporate Income Tax Regulations.</p> <p>The main advantage of this regime is the 95% exemption in Spain on income derived from (i) dividend distributions by subsidiaries and (ii) capital gains from the transfer of shares in non-resident entities, provided certain requirements are met.</p>
What are the requirements for an ETVE vehicle?	<ul style="list-style-type: none"> • An ETVE vehicle may take the form of a limited liability company, with a minimum share capital of €3,000, or a public limited company, with a minimum share capital of €60,000, and must have its registered office in Spain. • The corporate purpose must expressly include the management and administration of equity interests in non-resident entities through an appropriate organization of material and human resources. It may also include other activities necessary to achieve its corporate purpose; thus, it does not require an exclusive corporate purpose. • Critically, the holding of shares must be active, meaning the ETVE cannot merely be a passive holding company but must have its own resources to manage and administer its participations. • Although no administrative authorization is required, notification to the Spanish Tax Authorities (AEAT) must be made before the end of the fiscal year in which the exemption is to be applied. <p>Additionally, to benefit from the regime, the following conditions must be met:</p> <ul style="list-style-type: none"> • A minimum 5% participation, direct or indirect. • Continuous holding for at least one year. • The investee entity must have been taxed and subject to a foreign tax identical or similar to Corporate Income Tax during the fiscal year in which the profits to be distributed or participated in were obtained. This requirement shall be deemed fulfilled when the country of the investee entity has signed a Double Taxation Agreement with Spain and allows for the exchange of information. • Dividends distributed must not generate a tax-deductible expense in the paying entity.

Can an ETVE carry out non-ETVE activities?

Yes, entities under the ETVE regime may engage in other activities. The special regime will only apply to qualified foreign-source income, while other income will be taxed under the general regime.

What is the tax regime for an ETVE?

Dividends received and capital gains from foreign subsidiaries benefit from a 95% exemption under Corporate Income Tax, resulting in an effective tax rate of 1.25%, provided the conditions are met.

Distributions by the ETVE to its shareholders will be treated as follows:

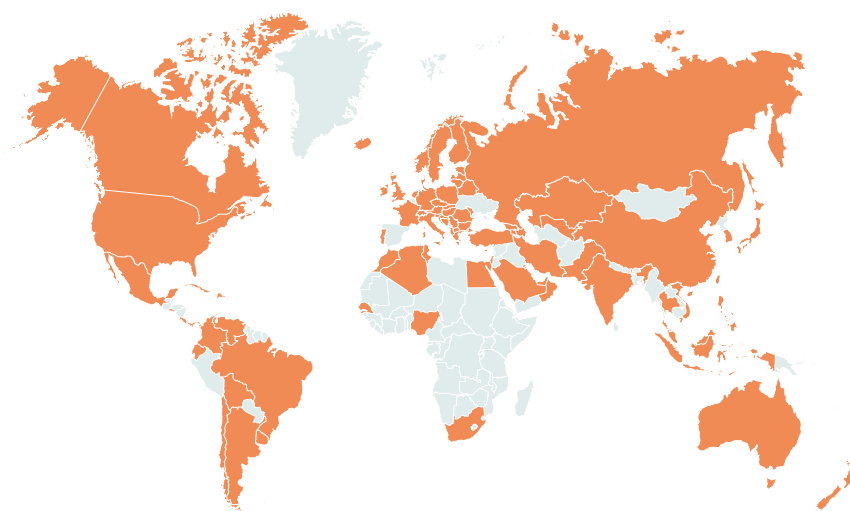
- Spanish corporate shareholders: The income received will be treated in accordance with the general provisions established under the applicable tax regulations: a 95% exemption applies if the requirements for the double taxation exemption are met, while a full exemption (100%) applies to income derived from the ETVE regime. In other words, the tax not paid by the ETVE on such income is not recaptured upon its distribution as dividends to the shareholders of said entity.
- Spanish individual shareholders: The income received is classified as savings income and is included in the taxable savings base, subject to progressive tax rates ranging from 19% to 30%. In conclusion, there is no differentiated tax treatment under the applicable regime for dividends derived from exempt income compared to any other type of dividend.
- Non-resident shareholders (without a PE in Spain): exempt from withholding on qualifying dividends, unless resident in a tax haven.

What are the advantages of the ETVE regime in Spain?

Spanish ETVEs benefit from Spain's extensive network of Double Taxation Treaties (DTT), particularly with Europe and Latin America. Spain has 102 treaties, 93 of which are in force.

EN VIGOR:

Albania	France	Oman
Algeria	Georgia	Pakistan
Andorra	Germany	Panama
Argentina	Greece	Philippines
Armenia	Hong Kong	Poland
Australia	Hungary	Portugal
Austria	Iceland	Qatar
Azerbaijan	India	Romania
Belarus	Indonesia	Russia
Bolivia	Iran	Saudi Arabia
Bosnia and Herzegovina	Ireland	Senegal
Brazil	Israel	Serbia
Bulgaria	Italy	Singapore
Canada	Jamaica	Slovakia
Cape Verde	Japan	Slovenia
Chile	Kazakhstan	South Africa
China	Kuwait	South Korea
Colombia	Kyrgyzstan	Sweden
Costa Rica	Latvia	Switzerland
Croatia	Lithuania	Thailand
Cuba	Luxembourg	Trinidad and Tobago
Cyprus	Malaysia	Tunisia
Czechia	Malta	Turkey
Denmark	Mexico	United Arab Emirates
Dominican Republic	Moldova	United Kingdom
Ecuador	Netherlands	United States
Egypt	New Zealand	Uruguay
El Salvador	Nigeria	Uzbekistan
Estonia	North Macedonia	Venezuela
Finland	Norway	Vietnam



The regime is especially advantageous for structures involving countries without DTTs between them but having treaties with Spain.

Incompatibilities

The following cannot apply to the ETVE regime:

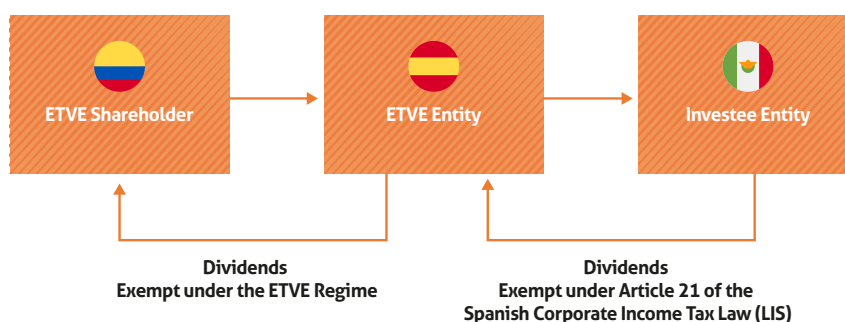
- Companies primarily managing movable or immovable assets.
- Economic Interest Groupings (Spanish or European).
- Temporary Business Unions.

Practical Example

A Colombian company incorporates a limited liability company in Spain to act as a holding company for a subsidiary located in Mexico.

Over time, the Spanish company accumulates distributable reserves amounting to EUR 200,000 and decides to distribute dividends to its sole shareholder, an individual resident in Colombia.

Both the shareholder and the investment meet the requirements to qualify for the special tax regime applicable to Spanish Holding Companies for Foreign Securities (ETVEs). Consequently, since the principal activity consists of holding shares in non-resident entities (in this case, the Mexican subsidiary), 95% of the distributed dividends will be considered income not obtained within Spanish territory. Therefore, such amount will be exempt from withholding tax in Spain.



Based on the same scenario, let us now assume that the Spanish company established as an ETVE not only holds a participation in the Mexican subsidiary but also owns a stake in another company resident in Spain.

In this context, in addition to the EUR 200,000 in accumulated reserves from the Mexican subsidiary, the ETVE receives EUR 100,000 in dividends from the Spanish company in which it holds a participation.

Regarding the taxation of these incomes at the level of the ETVE, the EUR 100,000 received from the Spanish company would also benefit from a 95% exemption, pursuant to the dividend double taxation exemption regime set forth in Article 21 of the Spanish Corporate Income Tax Law (LIS).

However, when distributing dividends to the Colombian shareholder, the tax treatment will differ depending on the source of the funds:

- 5% of the EUR 200,000 derived from the Mexican subsidiary will continue to benefit from the ETVE regime and, therefore, will be considered income not obtained within Spanish territory, remaining exempt from withholding tax.
- Conversely, 95% of the EUR 100,000 derived from the participation in the Spanish company will not be covered by the ETVE regime and will be subject to taxation in Spain under the general regime. In this case, the reduced withholding tax rate established in the Double Taxation Treaty between Spain and Colombia will apply.



This brochure is of an advertising and informative nature. For the provision of professional legal advice you should contact the firm directly through the specialized contacts.

Seegman refers to the company Seegman Servicios Jurídicos, S.L.P., with tax identification number B88144852.

MADRID

Paseo de la Castellana 53, 28046.
+34 91 080 09 29
firstcontact@seegman.com
www.seegman.com

LISBOA

Avenida da Liberdade, 67-B 2ºA. 1250-140
+351 213472251
firstcontact@seegman.com
www.seegman.com