

International Tax Andorra Highlights 2017



Investment basics:

Currency – Andorra is not an EU member state, but it uses the Euro (EUR) as its currency.

Foreign exchange control – No

Accounting principles/financial statements – Generally accepted accounting practice, which is in line with international accounting and financial reporting standards (IAS and IFRS). IAS/IFRS are used in relation to any aspects that are not specifically governed by Andorra GAAP.

Principal business entities – These are the public limited company, limited liability company and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident in Andorra if it is incorporated in Andorra, has its registered office in Andorra or its effective management is in Andorra.

Basis – Residents are subject to corporation tax on worldwide profits and capital gains. Nonresident companies are taxed on Andorra-source income and gains (subject to the provisions of an applicable tax treaty). Branches generally are taxed in a manner similar to subsidiaries.

Taxable income – Taxable income of resident companies is worldwide profits less deductible expenses, and is based on income disclosed in the financial statements. For nonresidents, tax is levied on a transaction-by-transaction basis (provided the nonresident does not have a permanent establishment in Andorra), although a number of exemptions apply.

Taxation of dividends – Dividends received from resident and nonresident entities are exempt from tax if certain requirements are met.

Capital gains – Capital gains are treated as ordinary business income taxable at a rate of 10%, but capital gains derived from the transfer of qualifying participations are exempt. Capital gains tax on the transfer of immovable property is levied at a progressive rate ranging between 1% and 15%, depending on the length of time the property has been held. No tax is levied if the property is held for more than 10 years. The gain also is subject to corporate income tax although a tax credit is granted for capital gains tax paid on the transfer of immovable property.

Losses – Operating losses may be carried forward for up to 10 years. The carryback of losses is not permitted.

Rate – The rate is 10%, although a taxpayer can request a reduction of 80% of the tax base if it is engaged in international operations involving intangible assets, the international trading of goods or intragroup financial management and investment activities.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit is available to resident taxpayers for foreign direct taxes incurred that are similar to Andorra corporate income tax. The credit is limited to the lesser of the tax payable in Andorra had the income been obtained there and the actual foreign tax incurred.

Participation exemption – See under “Holding company regime.”

Holding company regime – A holding company regime applies to Andorra entities whose exclusive purpose is to manage interests in nonresident entities. Under the regime, dividends distributed by nonresident entities are exempt from tax, as are capital gains derived from the transfer of the corresponding participation (regardless of

the extent of the participation). The profits that correspond to the income distributed by the Andorran entity to its shareholders also are exempt from tax.

Incentives – Deductions are available for new personnel hired and new investments. New investments can be depreciated at higher rates for tax purposes.

Withholding tax:

Dividends – Dividends paid to a nonresident are exempt from tax.

Interest – Interest paid to a nonresident is exempt from tax.

Royalties – The withholding tax rate on royalties paid to a nonresident is 5%.

Technical service fees – The withholding tax rate on technical service fees paid to a nonresident for services related to business activities in Andorra is 10%.

Branch remittance tax – No

Other – The general withholding tax rate is 10%, with a 1.5% rate on reinsurance transactions.

Other taxes on corporations:

Capital duty – No

Payroll tax – Companies are required to withhold tax on salaries paid to employees, generally at a rate of 10%.

Real property tax – A local real property tax is levied based on the size of the property.

Social security – The employer must contribute 14.5% of gross salary to social security.

Stamp duty – No

Transfer tax – The transfer of real estate between entities generally is subject to a transfer tax at a rate between 1.75% and 2.5%.

Anti-avoidance rules:

Transfer pricing – Transactions with related parties must be carried out on arm's length terms.

Thin capitalization – No, but financing expenses incurred on transactions with parties in tax havens are not deductible unless the taxpayer can demonstrate that the financing is on arm's length terms.

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year coincides with the accounting period. The tax period may not exceed 12 months.

Consolidated returns – A group of corporations may be taxed on the basis of a consolidated balance sheet. To

qualify as a group, an Andorra company must own at least 75% of its Andorra subsidiaries.

Filing requirements – The corporate income tax return must be filed and taxes paid within six months and 30 days following the close of the fiscal year. Corporations are required to make an advance payment of income tax in September of each year.

Penalties – Where there is no loss to the tax authorities, penalties may range from EUR 150 and EUR 3,000. Underpayment penalties are 50% to 150% of the unpaid tax liability.

Rulings – The tax authorities may provide binding advance rulings on the tax consequences of a proposed transaction.

Personal taxation:

Basis – Residents are subject to personal income tax on their worldwide profits and capital gains. Nonresident individuals are taxed only on Andorra-source income.

Residence – An individual is resident in Andorra if he/she spends more than 183 days in Andorra within a 12-month period or has his/her center of economic and/or vital interests in Andorra.

Filing status – Each individual must file a tax return; joint filing is not permitted.

Taxable income – Taxable income includes employment income, capital gains, movable and immovable income and entrepreneurial income. Income up to EUR 24,000 (EUR 40,000 under certain circumstances) is exempt. Dividends received from resident entities are exempt from taxation, but dividends from nonresident companies are subject to tax.

Capital gains – Capital gains are treated as ordinary income. Gains derived from the transfer of real property are exempt for personal income tax purposes if the capital gains tax on the transfer of immovable property applies (e.g. such gains are taxed at a progressive rate ranging between 1% and 15%, depending on the length of time the property has been held). The exemption also applies to property located outside Andorra if the property has been owned for at least 10 years. Capital gains derived from the transfer of qualifying participations (in Andorra and non-Andorra companies) are exempt.

Deductions and allowances – Relief is granted for dependents and mortgages.

Rates – 10%

Other – Taxpayers that obtain a passive residence authorization (i.e. individuals without an employment relationship or that do not carry out entrepreneurial activities in Andorra) before 1 January 2015 are not

subject to personal income tax for the period 2015 to 2017, but they must pay an amount of EUR 30,000 per year.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – A local real property tax is levied, based on the size of the property.

The transfer of real estate between individuals generally is subject to a transfer tax at a rate between 1.75% and 2.5%.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – The social security cost for an employee is 5.5% of the gross salary.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – The personal income tax return must be filed and tax paid between 1 April and 30 September of the year following the tax year.

Penalties – Where there is no loss to the tax authorities, penalties may range from EUR 150 to EUR 3,000.

Underpayment penalties range from 50% to 150% of the unpaid tax liability.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods and the provision of services.

Rates – The standard rate is 4.5%, with reduced rates of 2.5%, 1% and 0%. Financial and banking services are taxed at 9.5%.

Registration – Registration is mandatory for all taxpayers that carry out transactions in Andorra.

Filing and payment – Filing and payment are due on a monthly, quarterly or bi-annual basis, depending on turnover.

Source of tax law: General Tax Law and legislation regulating each tax

Tax treaties: Andorra has concluded tax treaties with France, Luxembourg and Spain.

Tax authorities: Ministry of Finance

Contact:

Francisco Montiel (jmontiel@deloitte.es)

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