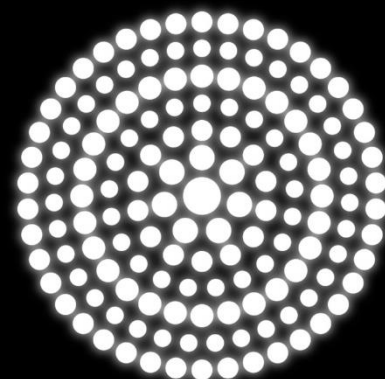


## International Tax Andorra Highlights 2020

Updated January 2020



### Investment basics:

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

**Foreign exchange control** – There are no foreign exchange regulations.

**Accounting principles/financial statements** – Generally accepted accounting practice applies, 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:

#### Rates

<b>Corporate income tax rate</b>	10%
<b>Branch tax rate</b>	10%
<b>Capital gains tax rate</b>	0%-15%

**Residence** – A company is resident in Andorra if it is incorporated in Andorra, it 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 are taxed in the same way as 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 exemptions apply.

**Rate** – The rate is 10%. The patent box regime allowing a taxpayer to 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intangible assets, the international trading of goods, or intragroup financial management and investment activities was repealed in 2018 and gradually is

being phased out. A grandfathering period applies until 2020 for those taxpayers applying the regime before 2018.

**Surtax** – There is no surtax.

**Alternative minimum tax** – There is no alternative minimum tax.

**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 from 1% to 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.

**Foreign tax relief** – 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, irrespective of the shareholding but provided in both cases that the subsidiary is subject to a tax similar to Andorran corporate income tax. Capital losses incurred on the transfer of shares of subsidiaries are nondeductible if any capital gain on the transfer would have been exempt in accordance with the participation exemption. 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. See also Rate above.

**Other** – A tax neutrality regime for reorganization transactions (i.e. mergers, spin-offs, exchanges of shares, and contributions of assets) is available under certain circumstances.

### **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 and payment** – 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 to 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.

### Individual taxation:

#### Rates

Individual income tax rate	Taxable income	Rate
	Up to EUR 24,000	0%
	EUR 24,001–EUR 40,000	5%
	Over EUR 40,000	10%
<b>Capital gains tax rate</b>		10% (in general)

**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.

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

**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.

**Rates** – 10% on income over EUR 40,000

**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.

**Foreign tax relief** – A tax credit is available to resident taxpayers for foreign direct taxes incurred that are similar to the Andorra personal 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. The tax credit can be carried forward three tax years.

### Compliance for individuals:

**Tax year** – Calendar year

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

**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.

**Rulings** – Rulings of the tax authorities on consultations raised by taxpayers are binding for the tax authorities and the entity submitting the consultation. A ruling also is binding for other taxpayers with comparable facts and circumstances.

### Withholding tax:

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
<b>Dividends</b>	0%	0%	0%	0%
<b>Interest</b>	0%	10%	0%	0%
<b>Royalties</b>	0%	10%	5%	5%
<b>Fees for technical services</b>	0%	10%	10%	10%

**Dividends** – No withholding applies on dividends paid to residents or nonresidents.

**Interest** – No withholding applies on interest paid to a resident company or to a nonresident. Interest paid to a resident individual is subject to a 10% withholding tax.

**Royalties** – Royalties paid to a nonresident are subject to a 5% withholding tax. Royalties paid to a resident individual are subject to a 10% withholding tax. No withholding applies on royalties paid to a resident company.

**Fees for technical services** – Fees for technical services paid to a nonresident, or to a resident individual, for services related to business activities in Andorra are subject to a 10% withholding tax. No withholding applies on payments to resident companies.

**Branch remittance tax** – There is no branch remittance tax.

**Other** – The general withholding tax rate on other types of taxable income that are subject to withholding tax is 10%, with a 1.5% rate on reinsurance transactions.

### Anti-avoidance rules:

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

Country-by-country (CbC) reporting requirements in line with OECD principles apply for fiscal years commencing on or after 1 January 2018. Andorra has signed the multilateral agreement for the automatic exchange of CbC reports.

**Interest deduction limitations** – There are no thin capitalization rules, 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** – There are no controlled foreign company rules.

**Hybrids** – No deduction is allowed for expenses from transactions carried out, directly or indirectly, with a related entity where the corresponding income is exempt or not subject to a tax similar to the Andorran corporate income tax, or is subject to a tax similar to the Andorran corporate income tax with a nominal rate of less than 40% of the general Andorran corporate income tax rate.

**Economic substance requirements** – There are no specific economic substance rules; however, see “General anti-avoidance rule,” below.

**Disclosure requirements** – See CbC reporting requirements under “Transfer pricing,” above.

**Exit tax** – Andorra taxes unrealized capital gains of Andorran tax resident companies and individuals when their tax residence is moved abroad.

**General anti-avoidance rule** – Anti-avoidance rules apply to transactions that are considered tax abusive and that totally or partially avoid, reduce, or defer tax.

### Value added tax:

#### Rates

<b>Standard rate</b>	4.5%
<b>Reduced rate</b>	2.5%/1%/0%

**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 biannual basis, depending on turnover.

### Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

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

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

**Capital duty** – There is no capital duty.

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

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

**Stamp duty** – There is no stamp duty.

**Net wealth/worth tax** – There is no net wealth or net worth tax.

**Inheritance/estate tax** – There is no inheritance or estate tax.

**Tax treaties:** Andorra has concluded tax treaties with Cyprus, France, Liechtenstein, Luxembourg, Malta, Portugal, Spain, and United Arab Emirates.

Andorra signed the OECD multilateral instrument (MLI) on 7 June 2017.

**Tax authorities:** Ministry of Finance

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