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ALL YOU WANTED TO KNOW ABOUT SPANISH REIT IN 5 QUESTIONS

With appetite in Spanish real estate gaining momentum, tax effective investment vehicles are a must for anyone interested in a piece of the pie. The following presentation deals with 5 key questions on the Spanish regime for real estate investment trusts (REIT), or SOCIMI as they are known in Spanish.

What is a SOCIMI?

A SOCIMI ("*Sociedad Cotizada de Inversión en el Mercado Inmobiliario*") is a public limited company ("*sociedad anónima*") especially suited to channel investment (local and foreign) in Spanish and foreign real estate.

What is a SOCIMI good for?

a) holding leased urban real estate (LURE);
b) holding shares in other SOCIMI or foreign REIT.

Which are its benefits?

a) 0% corporate income tax;
b) 0% withholding tax of dividends under the parent-subsidiary directive (normal withholding tax rate would be 20%);
c) reduced withholding tax rate where treaty is applicable;
d) the assets do not need to be located in Spain.

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How is it regulated?

SOCIMI are regulated by Law 11/2009, of October 26, as amended by Law 16/2012, of December 27.

Which are the requirements?

a) Minimum share capital is € 5 million, subscribed using monetary or non-monetary contributions (ie, the assets themselves);

b) Minimum property of one;

c) 80% of assets must be either i) LURE; ii) lands for development of LURE; iii) stock in other SOCIMI or REIT;

d) 80% of income must derive from leases or dividends distributed by subsidiary SOCIMI/ REIT;

e) Assets must be leased for a minimum three-year period (if property is being offered for lease, a maximum of one year can compute to fulfill this requirement);

f) Mandatory distribution of dividends: **i)** 100% of income arising from SOCIMI/ REIT subsidiaries; **ii)** 50% of capital gains arising from transfer of assets (property or shares); **iii)** 80% of all other income;

g) Listing: a SOCIMI must be listed in an organised stock market in Spain, the EU, the EEA or any other jurisdiction with which Spain exchanges tax information. Listing in a multilateral trading system in Spain, the EU or the EEA is also possible;

h) Effective taxation: shareholders holding at least 5% of the share capital must be subject to a 10% taxation. If this requirement is not met the SOCIMI will pay 19% corporate income tax on the dividends distributed to the non-compliant shareholder.

For further information on setting up a SOCIMI please contact our Madrid office at madrid@avinalabogados.com