



BUY-TO-LET INVESTMENTS IN SPAIN

Investing as a Private Person versus Establishing a Company

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ABSTRACT

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The subject of the thesis was chosen when the Zariko properties needed a research to find out when is it more profitable to be private person and when is it time to establish a company when investing in apartments to let. The target of the thesis was to investigate three cases: private person, Finnish company and Spanish company investing in one, ten or hundred apartments. The research was made by finding information from the internet, with some professional books as well as some professionals who were interviewed. The figures for the example calculation were made up together with the professionals.

The basic steps to purchase of the apartment, company forms in both countries and the establishment of the company were investigated and presented. It was found that the best company form for this kind of business is Spanish sociedad limitada. There is a double taxation treaty between Finland and Spain that prevents paying twice the taxes for the income from the other country.

It was found that when owning one apartment it is more profitable to be private person but in the case of owning ten apartments a company makes more profit. It was researched further to find out where the line goes, and it was found that when purchasing seventh apartment it is time to consider establishing a business. And the company form should be Spanish sociedad limitada. Finnish company was not the most profitable in any case. Finnish company should not be considered in this case because the rental income is taxed in Spain. Because of that the company cannot make any tax deductions but has many expenses, so this option is not recommended.

The calculations were quite basic and could be researched further and also other expenses could be taken into account. The expenses of the purchase of the property could be investigated more deeply.

Key words: investing, Spain, buy-to-let, company forms

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1 INTRODUCTION

The subject was chosen to be investigated during my practical training in Spain. I was working in Zariko properties, which is real estate agency located in Torrevieja, Spain. They have a lot of customers from Finland, Sweden, Norway and Russia. It would be useful for their customers, real estate investors, to know which the most profitable way to invest in properties is. That is why the subject is going to be researched further and the findings will be presented in this thesis. The three perspectives are private person, Finnish company and Spanish company. The amounts for the comparison are one apartment, ten apartments and hundred apartments.

In the beginning there is some basic information about Spain and why is it so popular for expatriates. Then the fundamentals of buying an apartment from Spain are going to be explained. There is also information about which documents are needed, which contracts are mandatory and what else is needed. Also taxes and other expenses are introduced shortly.

In the second part it is going to be researched how to establish a company in Spain or in Finland. Most common company forms in Spain and in Finland are going to be presented. Suitable company forms for renting purposes and their taxation will be looked more thoroughly.

In the third section there will be three examples with more specific information for each perspective what it really means to own apartment in Spain. There are example calculations to demonstrate the differences between the options. In this section the answer to the question “when is it time to establish a company to make more profit?” is found.

In the end conclusions will be summarized together and the final answer about the amount of apartments one has to own for being more profitable as a company is found.

2 FUNDAMENTALS OF INVESTING IN PROPERTIES IN SPAIN

Many people dream of living in warmer climate. Spain is really great option because it is the sunniest country in the Europe and even World Health Organisation (WHO) has described the climate of Costa Blanca to be the healthiest in the world. (Hampshire 2006, 22)

Spain is large country and because its provinces have some amount of autonomy, some things might differ regionally. There are many differences in legalities in Canary Islands and those are not investigated further in this thesis.

Spain is known to be very open for foreigners. To introduce Spain there is more information in this chapter. These tables show where Spain stands in the world of investments and tourists or expatriates. The popularity of Spain as a tourist destination can be seen in the table 1 from investinspain.org below. Only France and USA were more famous tourist destinations than Spain in year 2009. That made Spain the third popular tourist destination in year 2009 with 52.2 million tourists. (investinspain.org)

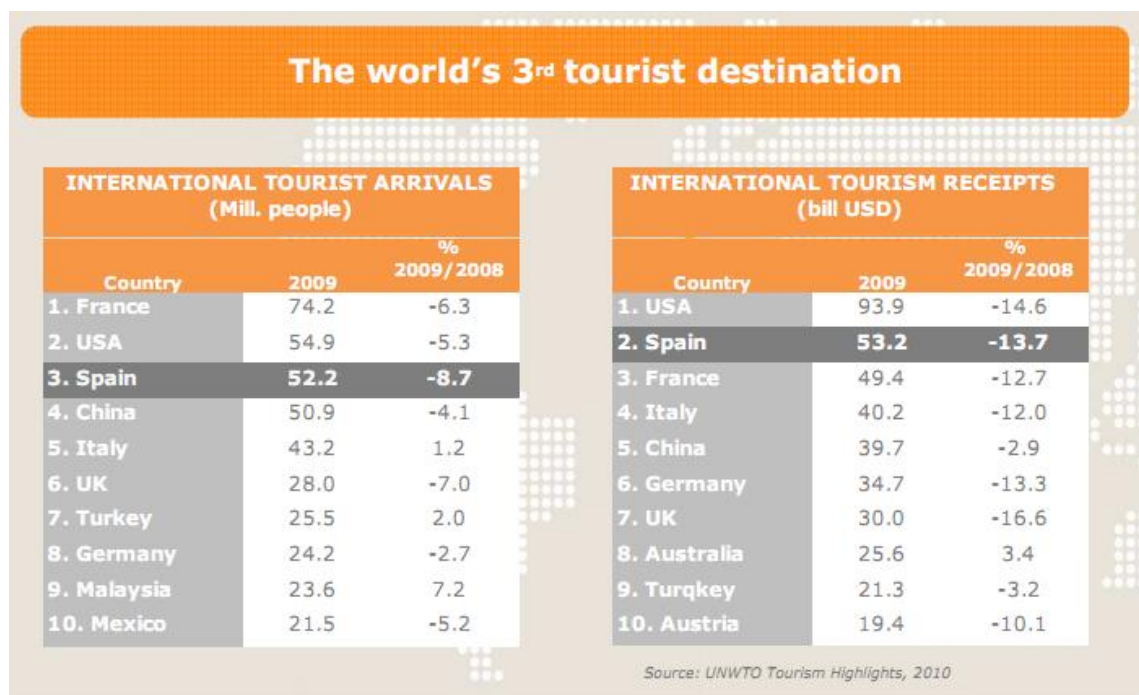


TABLE 1. Top tourist destinations in the world in year 2009 (investinspain.org; Spain: your partner in Europe, Business opportunities)

The year 2010 Spain had population of 47 million people of which 4,7 million were foreign residents. In the table 2 below can be seen the growth of foreigners past 3 years and the differentiation of their origins. As can be expected most of them are from Europe, mostly from Great Britain, Germany and Scandinavia. (investinspain.org)

Table 2

FOREIGNERS RESIDENT IN SPAIN BY CONTINENT OF ORIGIN

	2008	2009	2010*
Europe	1,917,069	2,007,633	2,126,991
America	1,354,158	1,479,014	1,338,274
Asia	270,210	299,743	300,091
Africa	922,635	944,696	986,382
Oceania	1,839	1,903	1,750
Unknown	7,588	8,243	1,014
TOTAL	4,473,499	4,791,232	4,754,502

Source: Ministry of Labour and Social Affairs². *Data at September 30, 2010.

TABLE 2. Foreigners resident in Spain by continent of origin (Guide to business in Spain 2011, 6)

Investinspain.org has published research by HSBC Bank International and Expat Explorer Survey 2010. The table 3 presents that the quality of life for expatriates in Spain is valued very high, the highest in Europe. (investinspain.org; Spain: your partner in Europe, Business opportunities)

		Overall Experience		Overall Setting up		Overall Integration		Overall Quality of Life	
		Score	Rank	Score	Rank	Score	Rank	Score	Rank
EUROPE	Spain	0.59	1 (4)	0.6	(10)	0.81	(1)	0.53	(6)
	France	0.58	2 (6)	0.6	(11)	0.79	(2)	0.52	(7)
	Switzerland	0.53	3 (10)	0.49	(17)	0.65	(13)	0.5	(8)
	Germany	0.52	4 (11)	0.52	(15)	0.72	(6)	0.47	(12)
	Belgium	0.52	5 (14)	0.53	(13)	0.68	(10)	0.47	(13)
	Netherlands	0.48	6 (18)	0.45	(21)	0.61	(19)	0.45	(17)
	United Kingdom	0.44	7 (20)	0.49	(19)	0.69	(9)	0.37	(23)

() Overall ranking
Source: HSBC Bank International, Expat Explorer Survey 2010.

TABLE 3. Quality of life for expatriates in Europe (investinspain.org; Spain: your partner in Europe, Business opportunities)

Buying properties to let is great business option for people who want to offer holiday homes for others as well as enjoy them on their own. According to in-spain.tv short term holiday lets might be the source of high income if the locations are chosen with care. Also it is important that the apartment is well equipped and marketed constantly in order to get new customers for every week. (inspain.tv)

Rental income gained can be used to mortgage payments and this way the apartment pays itself back. Renting prices may differ a lot depending on the seasons. During the high season from July to September weekly rent might double compared to low season October-March when it might be significantly lower. There also might be different medium season prices from April to June. For example 2 bedroom apartment prices are between 500€-800€ per month during low season but it is possible to pay twice as much during the high season. (Hampshire 2006, 129)

Many Finns spend their winters in Spain and return to Finland to escape the summer's hotness, while others come to spend their summer holidays in Spain. For this reason ideal situation would be to get tenants for few months of whole low season and in the high season tenants to change weekly or monthly. Increasing amount of low cost airlines and current trend to plan the holidays independently instead of using travel agents is also advantage for private rentals.

It is advisable to get a good letting agent to help with day-to-day issues like client entries, deposits, payments, cleaning etc. (inspain.tv) There are letting agents in every corner in the most popular tourist destinations so finding one with good reputation is very important. Asking around people's recommendations is the best way to find reliable letting agent in Spain. It is also possible that the real estate agency that handles the sale also offers letting agent services. (inspain.tv, Hobbs 2004, 89, zariko.com)

The cost of letting agent is usually about 15% of gross rental, depending on the services included. There might be some extra charges or penalties in termination of the contract so the small print should be read with care and it is recommendable to hire an attorney or gestor to check it. (inspain.tv, Hobbs, 89)

When looking for the property it might be surprising to see the same properties listed in many real estate agencies. In Spain it is common that seller puts the property for sale with more than one real estate agency. Some agencies want to make sales contracts with exclusivity but not many sellers agree on that because that is not the way they have been used to do things. (zariko.com)

In this chapter some basic terms, needed contracts, taxing, financing and current situation in housing market will be introduced to get started in property investments in Spain.

2.1 Gestoria

First step is to find a good gestoria. As Spain is known to be the dream land of bureaucracy, there is a market for workers that help people with the paper work. That is why institution called gestor has been created. The term gestor doesn't exist in many countries, but in Spain even the local people might need them so that all documents are filled in correctly. In Spain even the simplest official paper work might require three or four forms to be filled and fees to be paid at different counters. Like Hobbs say in Starting a business in Spain (2006) "If you have fluent Spanish, limitless patience and no time restrictions then do it your-

self... Otherwise, it is recommended to consult your local gestoria...". With signed letter of authorization the gestor can do all the onerous and tedious work for the investor. The professional level of gestorias might differ a lot so again asking around is again the key for finding the best one. (Hobbs 2006, 102)

Trying to do all the official work in Spanish would be exhausting even for fluent Spanish speaker so finding a good English or Finnish speaking gestor is preferred. In Spain only 27% (Europa 2006) of the local people speak English so language problems might also cause problems with the authorities. Gestors are specialized in contracts and legal formalities. A good gestor can ensure that the forms are filled in correctly and all the needed annexes are attached. They might also know ways to speed up the process. (spainexpat.com)

Gestors are used for example for bureaucracy dealing with employment and residence permits, driving licences, registering a car, buying a house, starting a business... They can also help with any questions regarding permits, licences, insurances and so on. They read the contracts and explain them to their customers so that they fully understand what they are committing for. Some might even offer other services like accounting and book-keeping. (Hobbs 2004, 102)

2.2 NIE, NIF and CIF

N.I.E. number is needed for establishing a business and also for getting a loan from the bank and buying an apartment in Spain. It is also needed for working, living and other legal agreements in Spain. It can be compared to Finnish social security number. Gestoria can help to with the acquisition and may also act as representative with the power of attorney. (zariko.com)

All the legal entities that have economic or professional plans in Spain must have tax identification number (N.I.F. or C.I.F). For individuals, foreigner identity number, N.I.E, is the same as N.I.F, tax identification number for individuals.

For the companies Certificado de Identificación Fiscal, C.I.F, is the tax identification number. These numbers can be obtained either at the General Directorate of Police in Spain or abroad at Spanish diplomatic missions or consular office. All the directors and shareholders of the company must have these documents. (investinspain.org ch3)

2.3 Notary

Shortly described notario is the public official that registers officially events like property purchases or incorporations of the companies. People or their representatives go to notary's office to draw up the deed and the notary has to witness the signatures. He makes the deal official by signing it. Notary won't accept any contract unless he is sure that both parties understand completely what they are agreeing on. Also one of notary's main tasks is to ensure that state taxes are paid when the sale is completed. Still it is wise to have own lawyer to see through the contract because it is not notary's responsibility to guarantee the accuracy of statements in the contract or protect against fraud, as Hampshire warns in his book. (Hobbs 2004, 315, Hampshire 2006, 216)

2.4 Contracts

Before signing any contracts the lawyer should be hired to check that the property really belongs to the vendor and there are not some hidden expenses in the land registry. (Hampshire 2006, 216)

There are some differences in buying new developments and used properties. Also different constructors might have their own procedures but in here the main steps and the most common contracts are listed. Note that not all of the contracts are mandatory. (zariko.com)

At first it is possible to make *pre-agreement* (in Spanish: promesa de compraventa). It is not mandatory and doesn't necessarily include deposit but it is a commitment by one or both parties to buy or to sell. It is also possible to include deposit in this contract. When buying new property 30% of selling price has to be paid in 30 days after making pre-agreement. (zariko.com, Spanish-living.com, Espanjaopas.com)

In *deposit agreement* (in Spanish: contrato de arras) the buyer and seller agree on how much deposit is and commit to buy or to sell. It is usually agreed that if the buyer withdraws from the transaction he loses the deposit and if the seller does he has to return double the deposit to the buyer. Normal deposit is 3000e or 10-15% of the selling price. (zariko.com, Spanish-living.com, Espanjaopas.com)

If not the previous contracts are used at least *private purchase contract* (in Spanish: contrato privado de compraventa) should be done before public deed of sale. It is also binding contract for both parties to buy and sell and includes the payment of deposit. (Hampshire 2006, 220)

Public deed of sale (in Spanish: escritura publica de compraventa) is the most important contract in the buying process. It has to be authorized by a Spanish Notary (in Spanish: Notario) and it is written in his office it is legally very binding. The buyer and the seller have to sign this agreement in front of the notary. If either party can't be present at notary's office they can send their representatives with a letter of attorney. Rest of the selling price and state taxes will be paid in Notary's office. (zariko.com, Spanish-living.com, Espanjaopas.com)

When going to notary's office it is absolutely necessary to have excellent understanding of Spanish because title deeds are in Spanish. Usually the real estate agent can explain the terms of the agreement to their parties but sometimes interpreter or gestor might be needed. Notary won't accept the contract unless he is sure that both parties understand completely what they are agreeing on. (zariko.com, Spanish-living.com, Espanjaopas.com)

Public deed of sale makes it possible to inscribe the land to the new owner in land registry. Inscription at the land registry is the most secure form of ownership. It is recommended that immediately after signing the public deed of sale, the property has to be registered with the land registry. This process might take as long as 1-2 months to be completed. Before land is registered to the new owner some additional expenses can be made for the land by the previous owner. That is why this should be done as soon as possible. (Spanish-living.com, Hampshire 2006, 227)

2.5 Taxes and expenses

It should be noted in the buying situation that there are some expenses that will be added to the selling price. They are not included in selling price but have to be paid in notary's office. In total these extra expenses are about 10% of the selling price. That is much more than in many other EU countries. These fees are higher in new properties compared to resale properties. (Hampshire 2006, 139)

The following fees may be included in these extra expenses (percentages are from *escritura* value):

- Transfer taxes 8% (resale properties) - or IVA (Value added tax) for new property
- Stamp tax 0,5% (resale properties)
- Legal document tax (AJD) 0,5% (new properties)
- Notary expenses 0,6-1%
- Registration of the deed (*escritura*) 0,3-0,7%
- Translation of the *escritura* 150-200€
- Electricity contract 150-180€
- Water contract 150-200€
- Financing
- Land tax (*Plusvalia*) – usually paid by vendor but in some areas buyer might has to pay it

(zariko.com, Hampshire 2006, 140 – 141)

If it is needed to get mortgage to finance the house bank requires that appraiser will check the property. Appraiser is licensed architect so even if mortgage is not needed it is recommendable to use his services to ensure that the deal is safe for both parties. Appraiser usually charges about 300-500€ for his work.

According to Spanish-living.com bank requires following documents for mortgage:

- DNI/NIE
- Work contract
- Last 3 paycheck stubs
- Latest income tax return
- Pre-agreement with the seller
- Proof that the property tax (IBI) on the house is paid up
- Other mortgages or loans that you may have
- All property titles, both in Spain and overseas
- Certificate from work authorities (vida laboral), showing your past work history
- Records of the assets (bank/mutual fund statements, etc.)
- Prenuptial agreements, if any
- Nonresidents: A certificate of nonresidency (form available from the bank)
- If self-employed: Local tax on economic activities (IAE)
- If self-employed: VAT tax paid for the last trimester and last year

3 COMPANY FORMS

After the decision to invest in properties in Spain has been made, possibly some options have been looked at it is time to think about whether or not it is time to establish a company. There are some advantages and disadvantages in being a private person and having a company specially formed for investing in properties. Those are discussed in the chapter 4.

The main goal of this thesis is to find out when it is time to make the move from the private person to company. Companies have other liabilities and costs than private people, but also there might be some reliefs. In this chapter the possible company forms are discussed and the best options are presented more thoroughly.

3.1 Finnish Company Forms

There are 6 company forms in Finland. Three of them are shortly presented here to give some information which is the best option for renting purpose. When Finnish company has business in other EU country, like in Spain, it is treated like a local company. That is because in EU there is the free movement of people, goods, services, and capital it is quite simple to internationalize companies. This concerns all Finnish company forms and also individuals. The company only needs Certificado de Identificación Fiscal, C.I.F, the tax identification number and certificate from the Register of Companies to have business in Spain.

3.1.1 Sole trader

This is the simplest company form in Finland. It is easy to set up and there are no requirements for financial investments. Any natural person that has place to live in EEA can be sole trader in Finland. Sole trader is fast and easy company form to begin. (yrittajat.fi)

3.1.2 General partnership

General partnership requires at least two partners. At least one of them has to be citizen in EEA. Partner can also be legal person who has domicile in EEA. There are no investment requirements, contribution is enough. This company form requires good trust between partners. That is why memorandum of association is recommendable even though it is not mandatory. (yrittajat.fi)

3.1.3 Limited partnership

In limited partnership there are two kinds of partners; general partners and limited liability partners. At least one of the partners has to be general partner that has domicile in EEA. Basically limited liability partners invest assets and general partners give their contribution. In exchange of their investments limited liability partners get their part of the profits as agreed. Limited liability partners don't have right to represent the company without special agreement. Just like in general partnership memorandum of association is not mandatory but recommendable. (yrittajat.fi)

3.2 Spanish Company Forms

In this chapter the most common company forms are presented shortly to give options when choosing what kind of company to establish. The one suitable for renting properties business and the steps to establish it are looked into more thoroughly. According to the investigations and interview of Monna Laakso-Sáez (lawyer in Spain and tax adviser) Sociedad Limitada, S.L. is the best option for buy-to-let companies.

At the very beginning of this process NIE number and certificate of residencia have to be acquired as described in chapter 2.2. Also as mentioned in chapter 2.1 good gestoria can help with all the bureaucracy needed for starting a business. Depending on the form of the company visit to the notary's office might be needed to formalize the contract.

Nationals from the Member States of the European Union are treated as Spanish citizens because of the EU legislation on the free movement of workers. (investinspain.org guide, ch4)

3.2.1 Sole trader

Sole trader (in Spanish: empresario individual) is the easiest business entity in Spain. 68% of the starting companies start their business as sole trader. (Hobbs

2004, 132) The downside is that because this business is legally considered the same with the person running it, the owner is personally responsible for the debts of the company. The taxes to pay are only the normal Impuesto sobre la Renta de las Personas Físicas, I.R.P.F and I.V.A which is the same as value-added tax. This business form does not require any financial investments or registration taxes. There is only need for registering for social security under the autonomo scheme and register to pay I.A.E. (tax on business activities). But probably it is not necessary for ever actually paying the I.A.E. (Hobbs 2004, 136)

3.2.2 Comunidad de Bienes

This company form is almost identical to sole trader. The most remarkable difference is that it is owned by more than one individual or party. The owners share ownership of a common property of right to something. As in sole trader members are also personally liable for the debts. Financial investments are not required. Taxes are reported on individual's IRPF tax forms for each individual. Also I.V.A has to be paid. (Hobbs 2004, 138)

3.2.3 Partnership

Partnership (in Spanish: sociedad civil) business relationship merges two or more people who have similar financial goals. Partners contribute money, equipment and/or labor and divide the profits amongst themselves as they have agreed on the contract. All debts and financial obligations are divided amongst the parties. There are no requirements for financial investments.

3.2.4 General partnership

General partnership (in Spanish: sociedad colectiva) is the simplest form of the companies owned by two or more parties. This can be compared to Finnish Avoin yhtiö. All the parties have limitless responsibility of the company. They are all abided to participate in the management unless agreed otherwise. Also in this company form partners are personally liable for the debts of the compa-

ny. Company name must include at least one name of the partners. If not all partner's names are used "and company" (y compañía) has to be added in the end. (Hobbs 2004, 143)

3.2.5 Public limited company.

Public limited company or in Spanish: sociedad anonima, S.A is meant for companies that have major turnover. It is recommendable for experienced business man and is listed in stock market. Decisions are made by the majority. Annual reports are required. Board of Directors is a must. Minimum capital is 60 101 euros in the beginning. Shareholders are not personally responsible for the debts incurred by the company. They can only lose the capital they have invested. (Hobbs 2004, 139 – 140)

3.2.6 Limited liability company

Along with sole trader limited liability company (in Spanish: sociedad limitada) or shortly S.L. is the most famous company form in Spain. It is similar autonomous legal entity as S.A but requires less capital, less bureaucracy and allows fewer shareholders. That makes it simpler than S.A. and is one of the reasons for its popularity. S.L. is suitable for the kind of small or medium size or family businesses which don't require huge financial investments. If a company is very successful company form can be upgraded to S.A. later when the business expands. (Hobbs 2004, 140 – 141)

Also in this company form shareholders don't have personal responsibility of the debts. The responsibility is limited to the invested capital. S.L. is easy to get started and only requires minimum capital of 3005 euros. The capital can also be goods or equipment like computers, but the receipts has to be added to the public deed. About 80% of the new companies in Spain use this company form. Documents of incorporation have to be notarized in notary's office. (Hobbs 2004, 140 – 141)

In S.A the capital is divided to shares, but in S.L. it is divided to participation units. The participation units of the S.L. belong to certain parties and cannot be freely handed over. They can only be given to other partners, spouses or close relatives. Only if none of the other partners are willing to buy the participation units they can be given to outsiders. Unlike shares of S.A. participation units of S.L. cannot be sold in public. Partners have to get information of the company in regular bases. There are no limitations on the amount of capital or shareholders. (Hobbs 2004, 140 – 141)

Following steps are needed to start S.L.

- Pre-register the name in the Spanish Central Commercial Registry (Registro Mercantil Centro). To ensure that no other company is using the same name it is needed to obtain a CNN (Certificación Negativa de Denominación). This certificate costs about 12€
- Applying for CIF (Código de Identificación Fiscal), which is tax identification code in Spain. You will receive provisional tax number which is valid until the registration for the Mercantile Registry is completed.
- Opening bank account in the name of the company and depositing the capital (minimum of 3005 euros). Bank will give a certificate called the Certificado del Desembolso Efectuado to verify that the deposition has been made.
- Drawing up of corporate by-laws
- Execution of the public deed of incorporation of the company in notary's office. Following documents are needed in notary's office:
 - A certificate registering the name of the company and the negative name certificate
 - A certificate from the bank that the capital has been deposited
 - The company statutes with the agreements of the shareholders
 - The original identification documents or the power of attorney
 - The bylaws of the company
 - The capital contribution of each shareholder and nominal value attributed to it
 - Provisional tax identification number (C.I.F.)

- Paying transfer tax within 30 business days of the execution of the public deed of incorporation in the tax office. The tax is 1% of the current value of the capital contributions made.
- Registration in the Commercial Registry (Registro Mercantil Centro) also in 30 days of the public deed execution.
- Obtaining the permanent tax identity number
- Register with social security (Seguridad Social) if employees are needed
- Register to pay IAE tax (Impuesto de Actividades Económicas), tax on business activities.

(Hobbs 2004, 123 - 126)

3.2.7 New enterprise limited company

In Spanish this name monster Sociedad Limitada Nueva Empresa or S.L.N.E. is new special and even simpler form of S.L. than the one that was presented above. The name of the company is limited; it has to include at least one name of the founders, registration number and words *Sociedad Limitada Nueva Empresa* or S.L.N.E. There are also some other restrictions: at the beginning there may only be one to five shareholders who have to be actual people, legal persons like other companies are not accepted. Also the amount of capital is restricted between minimum of 3 012 e and maximum of 120 202 e. All the capital must be made up of monetary contributions. (Hobbs 2004, 142)

S.L.N.E. has to be registered in internet. As in S.L. partner are only responsible for their investments not personally. This is really fast and economic way to start a business. Government expects that the amount of S.L.N.E will increase because of the easiness. (Hobbs 2004, 142)

4 CASES

In this chapter there are some practical examples that describe in more detail the situation in buy-to-let cases as a Finnish private person, a Finnish company and as a Spanish company. The pros and cons about each case are listed to illustrate the differences between the options and to demonstrate which the best option is and when it is time to establish a company to get more profit. Even better way to see the differences is in the chapter 4.4 with the tables that compare the actual example figures.

The example character is a Finn that has 35 000€ salary income per year from Finland. He is not resident in Spain. He is the only owner of the Finnish and Spanish companies in the cases. The interviews and email discussions with Monna Laakso-Sáez (lawyer, tax consultant) and Heidi Saarikko (real estate agent) was used as a base of the examples. The figures are purely evaluations. The example apartment is basic 2 bedroom apartment and that is used also in multiplied calculations, assuming that all the owned apartments are similar with the same expenses. The owner has bought the furniture and equipment for the apartment for about 9000€.

The calculations used to compare the expenses are presented in the end of this chapter. Neither the establishing a company nor buying the property costs are not considered in this chapter, as they were discussed earlier in chapters 2 and 3. Also there might be some expenses if an agency is used to rent out the properties, cleaning the property after every guest etc. Those are not taken in to account in these cases but should be considered when starting to do the business.

Because of the unstable situation in the housing market in Spain the prices of the apartments and the detailed costs of the purchase were not taken into these calculations.

4.1 Case I: Finnish private person

It is assumed that this person has bought a two-bedroom apartment from Spain. He is not living in Spain, but he wants to make profits buying apartments and renting them out. He gets rental income 5000€ per year per apartment he owns. In Finland he gets 35 000€ salary income and pays taxes for that to Finland.

Because he is not resident in Spain has to pay taxes for the whole amount he gets from rentals. He is not allowed to make any tax deductions, neither in Spain nor in Finland. According to vero.fi Finland and Spain have tax treaty on double taxation of which the exemption method is used. Basically it means that if person would normally pay 19% taxes in Finland for his salary income of 35 000€. But because he has rental income from Spain Finnish tax authorities assume that he pays taxes about that income to Spain and only consider that income as increasing the tax rate. So Finland taxes the person according to tax rate that would be from 40 000€, but only taxes 35 000€. In Spain tax rate for non-residents' rental income is 24%. Because of the exemption method person is no required to pay the difference between Finnish rental income tax and Spanish rental income tax. In Finland rental income is taxed by tax rate of 28%. (vero.fi, agenciatributaria.es, Hampshire)

Pros and cons of individual for buy-to-let

Pros	Cons
<ul style="list-style-type: none"> - no expenses of the company - lower tax rate (24%) on rental income than in Finland (28%) - exemption method in taxes 	<ul style="list-style-type: none"> - no tax deductions - possible tax rate increase in Finland

4.2 Case II: Finnish company

This Finnish company is owned by private person described in chapter 4.1. The company does not have office in Spain so it is treated similarly to Finnish private person who is not resident in Spain. The company cannot make tax deductions either like the private person. In Finland a company has expenses for 2000€/year, for accounting etc. maintenance expenses. This is only estimation and can differ depending on the turnover employees etc. The company gets rental income from Spain 5000€/per year for every apartment it owns. According to Agencia Tributaria the tax rate for real estate assets located in Spain owned by individuals is 24%. (Interview of Monna Laakso-Saéz, agenciatributaria.es, Hampshire 2006)

Pros and cons of Finnish company for buy-to-let

Pros	Cons
<ul style="list-style-type: none"> - lower taxes 24% compared to Finnish 28% - income taxed in Spain 	<ul style="list-style-type: none"> - 2000€/year expenses of the company + establishing a company expenses - no tax deductions in either country

4.3 Case III: Spanish company owned by Finns

In the third case there is a company established in Spain that is owned by Finnish person who is not a resident in Spain. As described in chapter 4.1. He earns 5000€ from rental income per year. Because he has Spanish company can make tax deductions from the income for 900€ from maintenance charges and 250€ for repairing the apartment. The company only pays taxes from the remaining part which is 3850€. Tax rate for companies is 25%. But of course the company has for example accounting costs that are evaluated to be about 1500€ per year. This is only estimation and can differ depending on the turnover employees etc. Because of different costs and possible tax deductions it should be investigated if establishing a company is really profitable. The results are in the next chapter.

Pros and cons of Spanish company for buy-to-let

Pros	Cons
<ul style="list-style-type: none"> - tax deductions - lower tax rate than in Finland 	<ul style="list-style-type: none"> - expenses about 1500e/year - establishing expenses ~2500e

4.4 Comparison of cases I-III

In the following table 5 (next page) the cases described earlier are divided in details. Amounts are only estimates. Because it is difficult to evaluate the expenses of a company per year, it has also been tested how the figures would change without the expenses but it did not affect the results so the expenses are there to remind that there will be some expenses for the company.

As it can be seen in the table 4 where the results of table 5 are summarized it is more profitable to be a private person if only one apartment is owned for buy-to-let. In the case of owning 10 apartments it makes a difference in profits to have a Spanish company. With the little difference in profits it makes it more profitable to establish a company. In case of owning 100 apartments the difference is almost 30 000€ so then it is definitely wise to have a company to handle the apartments.

Finnish company did not win any of the comparisons, so the conclusions can be drawn that it is not profitable to own Finnish company in any case of renting the apartments in Spain. That is why it is left out in later investigations.

Comparing profits			
Apartments	Private	Finn comp	Span comp
1	2 650 €	650 €	1 388 €
10	26 500 €	24 500 €	27 375 €
100	265 000 €	263 000 €	287 250 €

TABLE 4. Comparing profits summary.

In the table 5 the income, costs and deductions have been broken down to details to see the effect of tax deductions and company expenses. As it was said earlier and is shown in simpler table 4, when 10 apartments are owned to buy-to-let, it is more profitable to have a Spanish company to make more money.

Comparing the profits per year									
	Private person - non resident			Finnish company			Spanish company		
Amount of apartments	1	10	100	1	10	100	1	10	100
Rental income	5 000 €	50 000 €	500 000 €	5 000 €	50 000 €	500 000 €	5 000 €	50 000 €	500 000 €
Expenses of the company	- €	- €	- €	2 000 €	2 000 €	2 000 €	1 500 €	1 500 €	1 500 €
Maintenance charge, property tax, insurance	900 €	9 000 €	90 000 €	900 €	9 000 €	90 000 €	900 €	9 000 €	90 000 €
Other expenses (eg. repairs, new dishes)	250 €	2 500 €	25 000 €	250 €	2 500 €	25 000 €	250 €	2 500 €	25 000 €
Expenses in total	1 150 €	11 500 €	115 000 €	3 150 €	13 500 €	117 000 €	2 650 €	13 000 €	116 500 €
Tax deductions in total	- €	- €	- €	- €	- €	- €	1 150 €	11 500 €	115 000 €
Taxable sum after deductions	5 000 €	50 000 €	500 000 €	5 000 €	50 000 €	500 000 €	3 850 €	38 500 €	385 000 €
Property income tax in Spain %	24 %	24 %	24 %	24 %	24 %	24 %	25 %	25 %	25 %
Property income tax in Spain €	1 200 €	12 000 €	120 000 €	1 200 €	12 000 €	120 000 €	963 €	9 625 €	96 250 €
Profit	2 650 €	26 500 €	265 000 €	650 €	24 500 €	263 000 €	1 388 €	27 375 €	287 250 €

TABLE 5. Breakdown of the costs.

It is clear in the tables 4 and 5 to see that when there are 10 apartments for renting purpose it is more profitable to own a Spanish company than owning them as private person, or Finnish company that it is interesting to see where the line goes, what is the amount of the apartments to own when it is more profitable to have a business rather than owning them as a private person? Because that was the main question of this thesis the issue was investigated in more detail and it was found that the line goes between owning 6 and 7 apartments. The results can be seen in table 6 below.

	Private person		Spanish company	
	6	7	6	7
Amount of apartments	6	7	6	7
Rental income	30 000 €	35 000 €	30 000 €	35 000 €
Expenses of the company	- €	- €	1 500 €	1 500 €
Maintenance charge, property tax, insurance	5 400 €	6 300 €	5 400 €	6 300 €
Other expenses (eg. repairs, new dishes)	1 500 €	1 750 €	1 500 €	1 750 €
Expenses in total	6 900 €	8 050 €	8 400 €	9 550 €
Tax deductions in total	- €	- €	6 900 €	8 050 €
Taxable sum after deductions	30 000 €	35 000 €	23 100 €	26 950 €
Property income tax in Spain %	24 %	24 %	25 %	25 %
Property income tax in Spain €	7 200 €	8 400 €	5 775 €	6 738 €
Profit	15 900 €	18 550 €	15 825 €	18 713 €

TABLE 6. Where is the line?

Along with table 7 that is summarized version of table 6 it can be seen that when owned 6 apartments private person makes slightly more profit than Spanish company but in the case of 7 apartments it has turned upside down and Spanish company makes more profit. The difference is not big but it means that in the case of really focusing on buy-to-let apartments when looking for the seventh apartment it should be carefully considered establishing a Spanish company. As discussed in chapter 3, Spanish corporate, *sociedad limitada*, *SL*, would be the best option.

Final comparison		
Apartments	Private person	Spanish company
6	15 900 €	15 825 €
7	18 550 €	18 713 €

TABLE 7. Final comparison.

The calculations for the tables were made very simply. It was estimated that rental income would be 5000€ per year. Maintenance charges, property tax, insurance and other expenses were discussed by email with Heidi Saarikko (real estate agent) and Monna Laakso-Sáez (lawyer, tax adviser). The expenses of the companies were estimated. All the expenses were calculated together and deducted from the profit after the tax had been deducted. Exception was Spanish company and resident who were allowed to make tax deductions, in those cases the deductible expenses were deducted before calculating the tax. Then the profits were collected in the summarizing tables and the results were clearly seen from the tables.

4.5 Another Angle of Private person: Residents versus Non-residents

In the investigations it was noticed that there is a quite significant difference between residents and non-residents. The differences are so significant that they are shortly presented in the following table 8. As it can be seen that in case of investing in rentals in Spain it would be much more profitable to be resident in Spain because in that case tax deductions could be made but the costs of company would not be considered. Taxation of residents is different than non-residents. They are taxed 19% from the first 6000€ earned, and 21% of the amount that exceeds 6000€ while non-residents are taxed with rate 24%. In this table it is not considered that they might have some other income sources that also have effect on tax rate.

Amount of apartments	Private person - non resident			Private person - resident		
	1	10	100	1	10	100
Rental income	5 000 €	50 000 €	500 000 €	5 000 €	50 000 €	500 000 €
Expenses of the company	- €	- €	- €	- €	- €	- €
Maintenance charge, property tax, insurance	900 €	9 000 €	90 000 €	900 €	9 000 €	90 000 €
Other expenses (eg. repairs, new dishes)	250 €	2 500 €	25 000 €	250 €	2 500 €	25 000 €
Expenses in total	1 150 €	11 500 €	115 000 €	1 150 €	11 500 €	115 000 €
Tax deductions in total	- €	- €	- €	1 150 €	11 500 €	115 000 €
Taxable sum after deductions	5 000 €	50 000 €	500 000 €	3 850 €	38 500 €	385 000 €
Property income tax in Spain %	24 %	24 %	24 %	19 %	19% <6000 + 21% 6000<	19% <6000 + 21% 6000<
Property income tax in Spain €	1 200 €	12 000 €	120 000 €	732 €	7 965 €	80 730 €
Profit	2 650 €	26 500 €	265 000 €	3 119 €	30 535 €	304 270 €

TABLE 8. Comparing resident and non-resident.

5 CONCLUSIONS

The main goal for this thesis was to find out about what is the most profitable perspective when investing in properties for renting in Spain. The perspectives were private person, Finnish company and Spanish company. In the chapter 4 it was compared how the basic costs of renting the apartments for each perspective have effect on the profits. The main options were one apartment, ten apartments or hundred apartments.

At first the basic terms that are related to buying process and the buying process itself was investigated and introduced. Because the buying process is complicated process and in Spain they have officials and abbreviations that might not be familiar to everybody they were introduced.

In the chapter 3 the possible company forms were investigated. As the author of the thesis does not have experience on owning a company especially the company forms in Spain were researched quite thoroughly. Also steps to establish a sociedad limitada were presented. It was found during the process that sociedad limitada is the best option to company form in Spain because it is easy to establish and keep up.

Finally in the chapter four there were more practical cases which helped to perceive when it is more profitable to have a company and when it makes more sense to stay private. The cases were quite descriptive. It was found that when there is only one apartment to be rented out it is more profitable to be a private person, but when there are 10 apartments Spanish company is better option. After this conclusion the research was taken into more details and it was found that the moment when to establish a company to handle the apartments is when the seventh apartment is purchased. Finnish company is not the most profitable in any case and that is why it should not even be considered.

In the investigations it was noticed that there is significant difference in whether the person is resident or not. In the main cases person was always not a resident but to see how big difference it makes this special case was also shown. It is much more profitable to be a resident in Spain if the purpose is to buy-to-let apartments. That should be taken into considering starting this investment business.

The figures used in the calculations were only estimations. There were many things that were ruled out but the research gives ideas when is it better to have a company when buying apartments to let. The research could be taken further and all the personal incomes and taxes could be taken into account. Also the purchasing costs could be researched more deeply because they are quite different than in other European countries.

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