

CANARY ISLANDS SPECIAL ZONE

ZEC



WHAT IS THE ZEC?

The Canary Islands Special Zone (ZEC) is a zone with a low tax rate that was created as part of the Canary Islands Economic and Fiscal Regime (REF) for the purpose of promoting the creation of quality employment, the economic and social development of the Archipelago, and the diversification of its productive structure.

ZEC was authorized by the European Commission in January 2000 and it is regulated in the Law number 19/94 of the 6th of July, 1994.

WHO CAN SET UP IN THE ZEC?

In general terms, any entity or branch which intends to carry out an industrial, commercial or service activity included in the list of authorized activities.



WHAT ARE THE REQUIREMENTS FOR BECOMING A ZEC ENTITY?

- It must be a newly-created entity or branch with its registered address and effective place of management within the geographical area of the ZEC.
- At least one member of the administration must reside in the Canary Islands.
- It must make a minimum investment of 100,000 euros (in Gran Canaria or Tenerife) or 50,000 euros (in the case of La Gomera, El Hierro, La Palma, Fuerteventura or Lanzarote) in fixed assets related to the activity within the first two years following its registration.
- It is necessary to create, at least, five jobs (in Gran Canaria or Tenerife) or three (in the other islands) during the first six months following its registration and this average must be maintained during the time that the benefits are enjoyed.
- It is necessary to conduct activities that are permitted in the ZEC.

LIST OF ACTIVITIES

- Growing of medicinal and pharmaceutical plants
- Fishing and aquaculture
- Food industry
- Textile industry
- Manufacture of products of wood and furniture
- Paper, Chemistry and pharmaceutical industry
- Manufacture of glass, ceramic and construction products; Manufacture of metal structures
- Manufacture of basic metals
- Manufacture of computer, electronic and optical products; manufacture of other machinery and equipment
- Building of pleasure and sporting boats
- Manufacture of unmanned aerial vehicles
- Manufacture of bicycles and invalid carriages
- Repair of ships and boats, aircraft and spacecraft and other transport equipment; industrial and other articles repair
- Natural resources, desalting, waste management and recycling
- Generation, transport and distribution of electricity from renewable resources
- Audio and video production and distribution
- Rehabilitation, reforming, remodeling or renovating buildings or spaces
- Wholesale trade and commission trade
- Transportation and support activities
- Travel agencies and reservation services
- Legal and accounting activities
- Activities of head offices; management consultancy activities (coordination centres and intra-group services excluded)
- Architectural and engineering activities; technical testing and analysis
- ICT related activities
- Research and development (R+D)
- Security and investigation activities
- Training
- Consultancy
- Advertising and market research
- Other professional, scientific and technical activities
- Therapeutic and assistance activities in residential centres
- Activities related to performing arts and entertainment
- Sports activities
- Theme parks. Amusement and recreation activities



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TAX ADVANTAGES FOR ZEC ENTITIES

Corporate Income Tax

ZEC Entities are subject to the Corporate Income Tax in force in Spain, at the reduced rate of 4%. This special rate will apply to a maximum amount of the income tax, depending on the number of jobs created as follows:

	MAXIMUM TAX BASE ZEC	EMPLOYMENT
Gran Canaria and Tenerife	1.800.000 €	5 jobs
	500.000 € additional per job (maximum 24.300.000 €)	6 - 50 jobs
	Unlimited tax base	More than 50 jobs
Rest of the Canary Islands	1.800.000 €	3 jobs
	500.000 € additional per job (maximum 25.300.000 €)	4 - 50 jobs
	Unlimited tax base	More than 50 jobs

The reduction of the gross tax payable as a result of the 4% cannot be higher than 30% of the revenues of the ZEC company.

Income Tax Nonresident (IRNR) exemption

- Dividends paid by ZEC subsidiaries to parent companies resident in another country as well as the interest and other income from transfers to third parties of capital and capital gains from property, obtained without a permanent establishment are exempt from withholding.
- The exemption described below shall also apply to incomes from the residents of any state where such incomes are paid by a ZEC company and come from operations materially and effectively carried out within the geographical area of the ZEC.
- These exemptions do not apply when the income is obtained through countries or territories with which there is not an effective exchange of tax information, or when the parent company has its tax residence in one of these countries or territories.

Property Transfer Tax and Stamp Duty (ITP-AJD)

ZEC entities are exempt from these taxes in the following cases:

- Acquisition of goods and rights for the activity development of the ZEC Entity in the geographical area of the ZEC.
- Corporate operations done by the ZEC entities, except their dissolution.
- Documented legal acts related to transactions of these entities in the geographical area of the ZEC.

Canary Islands General Indirect Tax (IGIC)

In the ZEC the supply of goods and services done within ZEC entities, as well as imports of goods made by them, shall be exempt from taxation by the IGIC. It is similar in nature to VAT, although there are major differences such as the lower tax rates.

Compatibility with other REF tax incentives

According to the limit of the Community Law on accumulation of financial support and under certain conditions, ZEC tax advantages are compatible with other REF tax incentives like the Reserve for Investment, the regime of deductions for investments and the tax-free areas.



AUTHORIZATION PROCEDURE

Investors wishing to set up in the ZEC must obtain prior authorization from the Consortium Board of the ZEC to become a ZEC Entity. The procedure is simple and it is initiated with a Request of Authorization prior to the registration in the Official ZEC Register (ROEZEC), a Report describing the economic activities to be carried out and the paperwork related. Once the authorization has been granted (within two months) the entity will be entitled to register in the ROEZEC on presentation of the Tax Identification Number (CIF), the legal copy of the document certifying its constitution presented in the Companies Registry and the application to register in the ROEZEC.



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