



Properties, Surveys and Inspections

Buying Guide for Spanish Property

Foreigners buying property in Spain has become very popular. The country has a pleasant, healthy climate and in recent years the local authorities have made great efforts to increase the number foreign tourists and residents. Spain now derives more of its foreign income from tourists than any other country in Europe. Due to low European interest rates, now is a good time to buy property in Spain. There is a very wide selection of standards, from farmhouses (fincas) and plots through to villas, townhouses and new apartment developments.

There is no shortage of real estate agents in Spain and it pays to search out a good company who will care for your requirements. Before you buy a property in Spain you should use our website to look at the different areas then consider visiting your favourites before deciding where to buy. Many people also rent a property in that area first.

Here's a simple guide to get the most out of buying a property in Spain:

- Set your budget limit and stick to it.
- Visit the property at least twice before you make a decision.
- Check what amenities the property has such as electricity, water, gas.
- Have a builder or architect examine the structure of the building.
- Talk to your prospective neighbours about the area.
- If you are unsure about a property, take photos and draw sketches to take home with you.
- Have your legal advisor check ownership of the property before you sign anything.
- Have your legal advisor check outstanding debts on the property before you sign anything.

Initial Costs

As well as the cost of the property, the buyer will be liable for transfer tax (IVA), which at present is 6% on a second-hand property and 7% on a new one, plus 1/2% stamp duty. The property registration office will charge you a fee to change the new deeds into your name. This is usually around 300€. There will also be notary charges for copies of the 'Escritura Pública'. The charge is on a scale depending on the contract price. In total you should allow 10% of the purchase price for costs. It is often the case that the buyer also pays the sellers fees. Check this at the point of enquiry and it is often possible to negotiate. Banks may also charge an opening commission for mortgage loans.

Annual Costs

The local town hall charge IBI which is an annual real estate tax. The previous owner is obliged to give you copies of previous bills. Community charges apply when you buy a property on a community development. These cover things like maintenance, swimming pools, gardens etc. You will also be liable for a wealth tax, payable annually and based on the value of the property and a property owners income tax based on your income from the property. You should clarify these in detail with your estate agent at point of enquiry.

Finance

Many developers of new properties are now offering up to 80% over 20 years for non-residents. Local banks will offer anything up to 60% for European residents. Most loans are long-term and secured on the property. When seeking a loan, make sure you are aware of the interest rates and if they are fixed or floating. Banks will ask for passports, residence permits, pay slips, sale contracts and copies of the title deeds. There are many advantages to taking out a loan to purchase your property, in the form of tax allowances. We have not listed them here as they are subject to fluctuation, however you may need to transfer money into Spain.

When you buy a property in Spain, you will know the price of the property in Euros but you will not know the actual cost until you buy all of the currency to pay for it. This means that the property could either cost you more than you had planned (if the Euro strengthens) or the property could become cheaper (if Sterling strengthens). Recently Sterling has fluctuated more than 10% against the Euro within a matter of months, so this does deserve careful consideration. On the basis that you are buying a property and not speculating on the currency markets, it is worth fixing the exchange rate for all of your future stage payments to the agent or developer.

How to Fix the Exchange Rate:

1. Buy all of the currency now on a "spot contract". Hold the currency on deposit and send payments when they are due from your Euro account. To do this you need to have full funds available.
2. Buy as much currency as you can afford now (e.g. for the first 2 payments) and reserve an exchange rate for the remaining payments. To reserve an exchange rate you need to buy a 'forward currency contract'. In effect you are buying currency now but paying at a later date when you have the funds available. The exchange rate that you achieve on a "forward contract" is not quite as good as that for a "spot contract" but it does guarantee that you know the cost of the property. You will be required to pay 10% of the value immediately and the balance by the date that you have reserved the currency for.

As a result of extensive research currency brokers are pleased to offer preferential currency transfer rates for all their clients and visitors. It is also advisable to speak to your new bank with regards to High Interest Sterling Accounts where your mortgage payments can be taken directly and converted on your behalf.

Approx cost to buy a home at 128,000 Euros or (80,000 Pounds)		
IVA 7%	Spanish VAT payable on declared property value	€8,960.00
Legal fees	Searches, preparing deeds and translation etc	€900.00
Notary's fees	Preparing escritura, registering and stamp duty	€600.00
I.A.J.D	Spanish tax of 0.5% of the declared value	€640.00
Connection charges	Water, gas, drainage, electricity etc	€300.00
Plus Valia	Capital Gains Tax on increased value of plot since last sold. Levied by the Town Hall	€60.00
Total	Approx 7,355 pounds	€11.460.00

Legal Matters

Most properties in Spain are in fact not registered. Most of the re-sale properties are sold by Spanish still. The only way someone may find out if how many square meters is legally theirs to sell is by investigating at the Catastral Department and Town Hall. If they have ever declared that there is a property at all. A great deal of families has never informed the Town Hall that a senior family member has deceased and therefore many sales take months to proceed to completion. There are many families with complicated backgrounds, most children believe they actually own what is and sometimes what was once their parents, sometimes resulting in an Expediente Dominio where there can be no proof of title at all. A great deal of the beautiful villas you see advertised are not registered by the builder and therefore the purchaser pays for the first registration, sometimes no licences have been issued and the seller is required to pay fines to the Town Hall. Many properties are then registered with less than the actual square meters of built area, and a great many are not mortgage able. Most urbanisation properties now being built are of course registered first because there is a compulsory registration system in Spain for new developments but this is Urban Land - not countryside. Most of the old village properties have no Title Deeds.

The seller of a Second-Hand Home should provide the following documents:

- The title deed of the property
- Receipt of payment of the real estate tax for the last year
- Receipt of payment of the tax on the increased value of Urban Land
- Certificate that any community charges (if applicable) have been paid up to date
- Latest copies of domestic bills so that you can take over the services such as electricity and water

The seller or developer of a New Property should provide you with:

- Deed of declaration of new construction
- Occupancy permit
- Certificate of rateable value of the property

Taxes and Costs on Purchase

Off Plan and New Development: (Total approx. 10%)

- 7% VAT Houses/Apartments (Purchaser)
- or 16% VAT plots and business Premises
- Generally 1% stamp duty (Purchaser)
- Notary (Purchaser)
- Registry (Purchaser)
- Municipal Plus Valia (Vendor or negotiable purchaser)
- Lawyer. Each party its own.

Resale Property: (Total approx. 9-10%)

- Generally 7% Transfer tax (Purchaser)
- N.B. Special cases have reduction: (ex. Special case for reselling properties by registered real estate companies: 2%)
- Notary (Purchaser)
- Registry (Purchaser)
- Municipal Plus Valía (Vendor or negotiable purchaser).
- Lawyer (Each party its own)

Mortgage: (Total approx. 2% of loan)

- 1% Stamp Duty
- Notary
- Registry
- Property Valuation
- Bank commissions (negotiable).

The General Procedure and Rules When Purchasing

1. Reservation Deposit: 3.000-6.000 €
2. Option contract 10%. Usually four weeks
3. (Purchaser's personal attendance not necessary)
4. Preparations of loan, Power of Attorney and further documentation.
5. Completion Title-Keys-Payment balance. (Purchaser's personal attendance or Power of Attorney necessary if Mortgage)

Vendors Liability

From a Developer:

- 10 Year structural. Insurance necessary from May 2000.
- 3 year System defects (A/C, pipes, electricity etc.).
- 1 Year 'cosmetic' defects.

Private Sale:

- 6 Months hidden defects.
- Vendors liability passes over to the purchaser for remaining time of guaranty.

Important Points to Check:

- Plot: Size, boundaries, and building conditions.
- Buildings: Specifications, description, boundaries.
- New Houses and Developments: Existence of structural insurance and Bank guarantees for amounts paid on account.

Running Costs of Owning a Property:

For Non-Resident private individual:

- 0,5% on the Catastral value ('income Tax')
- 0,2% on the Title Deed value ('wealth Tax')

For Non-Resident off shore company:

- 3% on Catastral Value per annum.
- Land Tax (Rates): average of 0,80 on Catastral value in this area.
- Rubbish rates: depending on area: between 18 € and approx. 200 €
- Community Fees-Urbanisation costs: Depending on budget.
- Company Maintenance (if ownership with company chosen).

Capital Gains Tax

RESIDENT Sellers of a Property (Private Individuals):

- Sale less than 1 Year of owning property: progressive %
- Sale after one Year of owning property: Generally 18% (deductions possible).
- Exemption for reinvesting in new principal property (totally or partially).
- No tax if vendor over 65 Years of age.

SPANISH COMPANY as Seller of a Property:

- Holding Companies: (very interesting formula)
 - 15% for sale of property.
 - 40% on business activity.
- Active Companies:
 - 35% for any sale or activity.

NON RESIDENT SELLERS of a Property (private Individuals):

- 35% of the gain (deductions possible).
- N.B.: 5% of purchase price will be retained by purchaser in lieu of capital gain tax. Unless:
 - Property was purchased before 31/12/86
 - Vendor is Tax Resident (certified by tax office).

Sale of SHARES of a Spanish Company by vendor (Sale of the company):

For Non-Resident sellers: generally 25% (no branch in Spain)

For Resident sellers:

- Progressive if before one Year.
- 15% if after one Year.

NB. Stamp duty would be applicable at 7%.

Community Property Laws in Spain

More than one million foreigners have already bought a property in Spain and when you do, you automatically become a member of a community of property owners. Regardless of the type of property you buy, be it a villa, an apartment or retirement home, you will find that your own interests are affected by the decisions of your neighbours. You will pay your community fees each year and at some point you will meet with your neighbours to discuss community matters.

If the property you buy is a new one, you may even be asked to contribute from the beginning to the formation of the community committee, appointing chairpersons etc and the fixing of community fees and services. Only those who buy an individual property standing on its own will not have to join a community.

The community is a very important part of your property and a well-run community can increase the value of your property, likewise a badly-run community can cut the value of your property. Before you purchase a property, find out as much as you can about the community to which you will belong. It is in your best interests to have a good, efficient community.

The biggest problem you are likely to face is that the community guides will be produced in Spanish and chances are that the AGM will be held in Spanish. Although there are guides available with rough translations.

The “Comunidad de Propietarios” is the Spanish system for regulating the joint ownership of common property. If you lived in an apartment this may be the foyer or entrance hallway, the gardens, the pool and the drains and other services. The community decides on how much to spend on these services, how to maintain them and how they should be managed. The community is a legal force and can go to court in the case of a dispute. You should make yourself aware of all the agreements and terms that it has. Before you buy a property there are several things you need to find out:

1. How much will I have to pay each year?
2. How much are the services fees for items such as water and drainage?
3. Are the community fees paid up to date?
4. Is the community in debt?

N.I.E

When you come to live and/or work in Spain you immediately have to apply for the N.I.E. number. You need this number to do anything fiscal in Spain. You can either try to obtain it yourself by going to the National Police station and collect the application form, or get a 'Gestor' (a fiscal adviser) to do it. He will charge you for this, but it saves you going to the police station, queuing up very early in the morning and explaining in Spanish what it is you are looking for.

Once you have completed this form you need to take it back to the National Police station together with a copy of it as well as your passport together with a copy. You then return approx. 1 month later to collect the number.

You need a N.I.E number to:

- Open a bank account
- Buy, sell or insure property
- Arrange credit terms or a mortgage
- Pay taxes
- Be paid for employment
- Apply for a business permit
- Register with social services
- Apply for a driver's licence

Residencia

Once you have decided to stay in Spain you can obtain your 'Tarjeta de Residencia' which is not compulsory for EU citizens but has various advantages. You can collect the application forms from the National Police station yourself, or get a Gestor to do this for you.

Once completed the form, you will have to return to the National Police station bringing along the following items;

- Your passport together with 2 photocopies.
- 3 colour passport style photographs.
- The title deeds or a rental contract stating where you live.
- A work contract of 6 months minimum together with a photocopy.

They will tell you when your document will be ready, give you a bank account number where you pay the fee which is approximately € 6.00 after which you can go back to the station (on the agreed date) to show the bank receipt and collect your residencia.