

**THE GENERAL COUNCIL OF ANDORRA
APPROVES THE LAW ON MEASURES TO
REFORM DIRECT TAXATION AND
AMENDMENTS OF OTHER TAX AND
CUSTOMS REGULATIONS**

The General Council of Andorra (*Consell General*) adopted during yesterday's plenary session, 19 January, the Law on Measures to Reform Direct Taxation and Amendments of Other Tax and Customs Regulations. It will be published in the Official Gazette of the Principality of Andorra ("BOPA") within the next few days, once it has been sanctioned and enacted by the Co-Princes. The main objective of this reform, as stated in the explanatory memorandum, is to promote fiscal consolidation, to continue with convergence processes to pursue international standards and to simplify and make the Andorran tax system more coherent, for example, by integrating capital gains tax on real estate transfer into other direct taxes.

The approved Law focuses mainly on the reform of direct taxation, being the most affected the Corporate Income Tax ("CIT") and the Personal Income Tax ("PIT"). However, the Law also modifies, to a greater or lesser extent, most of the regulations that make up the tax system of the Principality of Andorra. In addition to the aforementioned laws (CIT and PIT), Income Tax for Non-Residents, General Indirect Tax (*Impuesto General Indirecto*), Law on the Basis of Taxation (*Ley de Bases del Ordenamiento Tributario*) and Customs Code shall also be included.

Furthermore, it occasionally modifies other regulations that are not part of the tax system itself but have a direct impact on the application of taxes, such as Law on Corporations and Limited Liability Companies or Law on the Automatic Exchange of Information of Tax Matters.

The main measures approved are as follows:

1. General limitation of the deduction of net financial expenses, equivalent to 30% of the corrected positive accounting result, with a minimum allowance of 500,000 euros.
2. Modification of intangible assets amortisation percentages and repeal of special amortisation taxation for new investments. Other limitations on the deductibility of expenses are established.
3. Restriction on the deduction of impairment expenses corresponding to any type of asset, except for inventories and receivable credits and balances.

4. Creation of a new tax transparency regime obliging the taxpayer to include in its tax base (CIT and PIT) the income obtained through: (i) Andorran collective investments undertakings that benefit from a reduced rate of 0% and over which they exercise effective control; and (ii) controlled foreign companies that, being subject to a tax rate of less than 5%, do not carry out a substantive economic activity and obtain certain categories of passive income.
5. Limitation on the offsetting of negative tax bases and application of deductions to tax liability, in such a way that the offsetting of one and the application of others cannot reduce the tax liability by more than 70% of the same tax liability.
6. Integration of capital gains tax on real estate transfer into the remaining direct taxes. The tax rate applicable to capital gains on real estate is 10%. However, a special surcharge of 5% is introduced to CIT and PIT to record speculative gains, understood as those generated within a period of less than two years.

In addition, individuals who do not carry economic activities may apply abatement coefficients that reduce gains generated within a period of more than five years, thus maintaining the regressive scale that currently exists and which implies the non-taxation of gains generated within a period of more than 10 years.

With respect to Income Tax for Non-Residents, a 15% tax rate is explicitly provided for speculative gains.

7. Within the scope of the Law on the Basis of Taxation, the limitation period for the application of negative tax bases and deductions is extended, and the non-applicability of limitation period to the powers of verification and investigation is established.

Although most of the measures shall be applicable for fiscal years beginning on or after 1 January 2024, the Law anticipates the entry into force of certain measures, such as the new reduction of the CIT and PIT tax base for residential leases or the new refund regime for the

amounts paid in terms of General Indirect Tax at the end of each settlement period, on the day following its publication in the BOPA.

Escaldes-Engordany, on 20 January 2023

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