

# Teaching Manual Spanish Corporation TAX: Practical Applications

Leticia Gallego Valero

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# **Teaching Manual Spanish Corporation TAX: Practical Application**

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**Leticia Gallego Valero**

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# Index

|  |    |
|--|----|
| INTRODUCTION .....                                     | 7  |
| CORPORATE TAX THEORY (TAX PERIOD 2019) .....           | 9  |
| 1. INTRODUCTION .....                                  | 9  |
| 1.1. Applicable legislation .....                      | 9  |
| 1.2. Concept and nature.....                           | 9  |
| 1.3. Scope of application.....                         | 10 |
| 1.4. Income allocation.....                            | 11 |
| 2. TAXABLE EVENT .....                                 | 11 |
| 3. TAXPAYER .....                                      | 11 |
| 4. EXEMPTIONS.....                                     | 12 |
| 5. TAXABLE BASE .....                                  | 13 |
| 5.1. Determination procedures.....                     | 13 |
| 5.2. Time period allocation.....                       | 14 |
| 5.3. Accounting records of income and expenditure..... | 14 |
| EXERCISES ON CORPORATION TAX .....                     | 16 |
| Exercise 1.....  | 16 |
| Exercise 2.....  | 17 |
| Exercise 3.....  | 21 |
| Exercise 4.....  | 21 |
| Exercise 5.....  | 23 |
| Exercise 6.....  | 26 |
| Exercise 7.....  | 28 |
| Exercise 8.....  | 29 |

|   |    |
|---|----|
| Exercise 9 .....  | 31 |
| Exercise 10 .....   | 33 |
| Exercise 11 .....   | 36 |
| Exercise 12 .....   | 38 |
| Exercise 13 .....   | 42 |
| Exercise 14 .....   | 45 |
| Exercise 15 .....   | 47 |
| Exercise 16 .....   | 49 |
| Exercise 17 .....   | 57 |
| EXERCISES SIMILAR TO EXAM QUESTIONS. CORPORATION TAX (CT) |    |
| FORMULATIONS .....  | 65 |
| 1. CT test questions.....                                 | 65 |
| 2. Corporation Tax (CT) exercise .....                    | 66 |
| GLOSSARY OF TERMS .....                                   | 68 |
| REFERENCES.....   | 70 |

# Introduction

The Corporation Tax is a fiscal instrument that forms part of the Spanish Tax System. It is a periodic, proportional, direct and personal tax on the income obtained by companies and other legal entities. It is regulated by Law 27/2014, of 27 November, and by Royal Decree 634/2015, of 10 July, which approves the Corporation Tax Regulation. However, there are some specific provisions, which are regulated by particular legislation for certain sectors or institutions, such as international bodies of which Spain is a member, special regimes based on territory of residence, cooperatives, the oil industry, foundations, venture capital entities, tax incentives for private participation in activities for the public interest, environmental protection, etc.

This teaching manual is intended as a useful tool for students of Public Sector Economics to gain a basic theoretical and practical understanding of corporate taxation. To this end, numerous practical examples are included to enable the application of this tax and to clarify common issues as well as those that present greater complexity. The answers to the exercises refer to the 2019 tax period, applying the regulations in force during this period and introducing any modifications to the regulations.

In the different sections of this manual, partial exercises are provided, including the applicable regulations underpinning the study of the theoretical concepts, as well as explanatory notes that help students to understand the solutions to the exercises. In addition, at the end of each exercise there are some notes on the Corporation Tax that give a quick overview of the tax to facilitate its understanding, as well as a glossary of concepts to clarify the most relevant terms.

This manual is based on the teaching material in Spanish that the teachers of the subject use, and including further explanations of specific points for foreign students when necessary. Firstly, after this introduction, we find the theoretical chapter, which leads into the second one composed by exercises. A general outline of the tax and a glossary of concepts are attached at the end of the manual, with a list of the references used for its the elaboration.



# Corporate Tax Theory (Tax period 2019)

## 1. INTRODUCTION

### 1.1. Applicable legislation

The key legislation on Corporate Tax, applicable to tax periods from 1 January 2017, comprises Law 27/2014, of 27 November, on Corporate Tax, and Royal Decree 634/2015, of 10 July, which approves the Regulation on Corporate Tax.

In addition, a number of other provisions should be taken into account, which can be divided into the following groups:

- a. The first one consists of the State Budget Laws for each year.
- b. The second group of provisions comprises the specific legislation for certain sectors or institutions, such as international bodies of which Spain is a member, special regimes based on territory of residence, cooperatives, the oil industry, foundations, venture capital entities, tax incentives for private participation in activities for the public interest, environmental protection, etc.

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### 1.2. Concept and nature

Corporate tax is a direct and personal tax levied on the income of companies and other legal entities in accordance with the provisions of the Law.

Under this principle, we can note the following:

- a. It is a direct tax; it is levied on income as a direct manifestation of economic capacity, although in practice it is possible to transfer the amount of the corporation tax on to the prices of goods and services.
- b. It is a personal tax; for it to be applied it must refer to a particular person, although it does not take into account “personal or family circumstances”, nor does it has a progressive scale, typical of personal taxes.
- c. It is a periodic tax; certain time divisions (tax periods) are established for the tax is to be paid; and it is a summary tax, because it is levied equally on the total income of legal entities regardless of the origin or source of that income.
- d. It is a proportional tax, because the rate increases by the same percentage as the taxable base increases.

These characteristics only apply to taxable entities under personal obligation to pay the tax; different characteristics apply to non-resident taxable entities.

### 1.3. Scope of application

Corporate Tax applies throughout Spain. However, there are two exceptions to this principle, which are the special tax regimes based on the territory of residence and international conventions and treaties.

- a. Special tax regimes based on territory. These include legally-established regional regimes, namely those of the Basque Country and Navarre, as well as the Canary Islands and Ceuta and Melilla, where there are certain variations from the common regime.
- b. International conventions and treaties. The following are included under international conventions and treaties:
  - The treaties and conventions in force between Spain and other states to prevent double taxation of income as well as other bilateral treaties, which, although dealing with different matters, contain provisions that affect this tax.
  - Multilateral conventions and treaties to which Spain is a party, and those signed with international organizations that affect the legal system of this tax.