

TECHNICAL NOTE

MOVING FROM FINLAND TO SPAIN



IMPORTANT INFORMATION

Utmost PanEurope dac ("Utmost PanEurope") does not provide tax or legal advice. The information presented in this document is not tax or legal advice, is not to be acted on as such, may not be current and is subject to change without notice. You should consult your own tax and legal advisors before engaging in any action.

1. RESIDENCE RULES

1.1 Breaking residence - Finland

Natural persons are considered to reside in Finland and be resident taxpayers when:

- › they have their main abode and home in Finland;
- › they have a permanent home abroad but they reside in Finland for more than six months due to work;
- › they are Finnish citizens residing abroad who moved abroad less than three years ago and who have not demonstrated that they did not have substantial ties with Finland during the tax year;
- › they are Finnish citizens on a diplomatic mission abroad;
- › they are Finnish citizens employed by Business Finland abroad who were resident taxpayers in Finland immediately prior to the start of the employment abroad;
- or
- › they are Finnish citizens in permanent full-time employment of the Finnish Government or specific international organisations abroad who were resident taxpayers in Finland immediately prior to the start of the employment abroad and who have not demonstrated that they did not have substantial ties with Finland during the tax year.

When a citizen of Finland moves abroad, a special provision included in the Income Tax Act or the "three-year rule" usually applies. When a citizen of Finland moves to another country, they are normally regarded as a resident taxpayer in Finland for the year when they move away and the three following years. They may be considered a non-resident taxpayer prior to end of the third year after their move, however, if they request it and if they are able to demonstrate that they did not have any substantial ties with Finland during the tax year. The move being permanent in

nature is a key prerequisite for the breaking of substantial ties.

You must make a notification of move if you are a Finnish citizen and you are moving to a foreign country to stay there for more than three months. You must always notify Kela (The Finnish Social Insurance Institution) when you are moving abroad.

1.2 Spain - Acquiring residence

You will be considered Spanish tax resident if any of the following circumstances apply:

- › you spend more than 183 days in Spain in a calendar year;
- › your centre of economic interest is in Spain (directly or indirectly); or
- › your centre of vital interest is in Spain. This is, if your spouse and/or minor dependent children live in Spain, you will be deemed Spanish resident irrespective of the number of days spent in Spain in a given tax year. However, this presumption accepts proof of the contrary (e.g. a tax residency certificate issued by the competent Tax Authorities of another country).

It is considered that Spain will be someone's centre of economic interest if most of their assets are located in Spain or if most of their income/gains are generated in Spain, in comparison with each other country in the world.

Taxpayers in Spain will be classified as either Spanish residents or non-Spanish residents and since there is no partial or split-year treatment in Spain, this tax status will be applicable for the whole tax year (i.e. calendar year).

2. OVERVIEW OF THE TAX SYSTEM IN SPAIN

2.1 Personal Income Tax and Capital Gains Tax

In Spain, all income (including capital gains) is divided into two main categories: general income or savings income and each category is taxed accordingly at the appropriate rates.

Savings income consists of dividend income, interest income, income derived from life assurance contracts, income from annuities and capital gains on any sale or transfer of assets.

The current applicable savings income tax rates for Spanish residents from 1st January 2025 are as follows:

TAXABLE BASE FROM	TAXABLE BASE TO	TAX RATE
€0	€6,000	19%
€6,001	€50,000	21%
€50,001	€200,000	23%
€200,001	€300,000	27%
€300,001	onwards	30%

General income will include any other source of income such as employment and self-employment income, pension income, rental income, notional rental income, income from royalties, gains not generated by the sale or transfer of assets (e.g. gambling), etc. The general income tax rates are progressive and will depend on the Spanish autonomous region where the taxpayer is resident, since they have powers to amend them regionally. In general, these rates currently range between 19% and 49%, depending on the total taxable income, but can be higher or lower in some Spanish regions.

Please refer to section 3 below for more details about how life assurance policies are taxed in Spain in relation to Personal Income Tax.

2.2 Wealth Tax and Solidarity Tax

For Spanish residents, Wealth Tax is payable based on the net value of the taxpayer's worldwide assets as at 31 December each year. In general, there is a personal tax-free allowance of €700,000 and an additional allowance of up to €300,000 for the value of the main home. However, the different Spanish autonomous regions have the power to establish different limits for this purpose. Anything exceeding these thresholds will be subject to Wealth Tax in Spain.

There are different rules established in the law in order to determine the value to be considered for each category of assets. According to the current rules, applicable from July 2021, life assurance policies will be considered for Wealth Tax purposes in Spain based on their surrender value as of 31 December each year. However, for those cases in which the policyholder does not have the right to fully surrender the life assurance policy as of 31 December, the policy will

be considered for Spanish Wealth Tax purposes based on the value of its mathematical provisions as of 31 December.

In general, the current Wealth Tax rates range between 0.2% to 3.5%. However, as previously mentioned, in Spain the regulatory competence to modify certain aspects of Wealth Tax (e.g. tax-free allowance, tax rates, reliefs, etc.) has been transferred to the different autonomous regions. Therefore, the specific case should be analysed on an annual basis depending on the residency of the taxpayer and the applicable Wealth Tax rules of such Spanish autonomous region.

Some assets are exempt from Wealth Tax in Spain (e.g. household items, certain pension plans, professional and business assets, etc.) and there are some rules to limit the payment of Wealth Tax based on the total level of taxable income. Professional and personalised Spanish tax advice is required for this purpose.

From 1 January 2023, the Spanish government introduced a new temporary tax complementary to Wealth Tax, known as Solidarity Tax for High Net-Worth Individuals. This new Solidarity Tax is levied on the ownership of net assets with value exceeding €3 million (Spanish residents can apply a €700,000 reduction on the taxable base), is accrued on 31 December each year and it was originally intended to be only applicable for tax years 2022 and 2023. However, in December 2023 it was agreed that this Solidarity Tax would be extended indefinitely and that the €700,000 reduction would also be applicable to non-Spanish resident taxpayers as well. The rates range from 1.7% to 3.5% and due to its complementary nature, any Wealth Tax paid may be deducted from the final Solidarity Tax bill. Non-resident taxpayers are subject to this tax notwithstanding the provisions of the relevant double tax treaty signed, which should be analysed on a case-by-case basis.

The current Spanish Wealth Tax rules will also apply to this Solidarity Tax in order to calculate the taxable base (e.g. valuation rules, exemptions, etc.). The net wealth, after applying the relevant exemptions and reductions (if applicable) will be subject to the Solidarity Tax rates, which range between 1.7% (from €3m to €5.34m) and 3.5% (more than €10.69m). Additionally, certain rules have been established to apply joint limits and deductions to avoid double taxation in line with Spanish Wealth Tax rules.

2.3 Inheritance and Gift Tax

Spanish Inheritance and Gift Tax rules can be quite complex and will depend on:

- › where the beneficiary is resident,
- › where the donor/deceased is resident and
- › where the assets to be inherited/gifted are located.

Additionally, it is important to understand that the tax rates and some other elements such as tax-free allowances, reductions, deductions and reliefs may vary from one Spanish autonomous region to another, as they have competences transferred to modify these aspects. Therefore, each case has to be analysed individually considering the particular circumstances.

Spanish Inheritance and Gift Tax rates are progressive and will be determined based on the personal circumstances of each beneficiary (e.g. amount received, beneficiary's pre-existing wealth and the relationship between the beneficiary and the donor/deceased).

In general, Spanish resident individuals are taxable in Spain on a worldwide basis whereas non-Spanish residents are only taxed based on any "Spanish situs assets" they receive. The beneficiary of an inheritance or a lifetime gift will be the taxpayer for Spanish Inheritance and Gift Tax and they will be solely responsible for submitting the corresponding tax return, where required.

With regards to life assurance policies where the beneficiary is not the same person as the policyholder, in case of death of the relevant life assured that triggers the payment of the policy's death benefit, this will be subject to Spanish Inheritance and Gift Tax (in the form of inheritance) for the a Spanish resident beneficiary (if any).

2.4 Form 720 - Informative Declaration of Foreign Assets

Spanish residents who are titleholders, beneficiaries or authorised users of non-Spanish assets and rights in certain categories exceeding €50,000 are be required to submit an informative declaration (Form 720) by 31 March to inform the Spanish Tax Authorities about these foreign assets.

The reportable categories include real estate assets and rights, accounts held in financial institutions, all forms of shares and securities, life assurance policies, etc.

Foreign life assurance policies should be in principle reportable under Form 720 when the policyholder is Spanish resident based on the surrender value of the policy as of 31 December. However, the Spanish Tax Authorities have clarified (in the Frequently Asked Questions about the Form 720 published in their website) that if the foreign insurer has already reported the value of such policy following its reporting liabilities in Spain (i.e. annual Form 189), then the policyholder is not required to report this value in their Form 720 again. We would strongly recommend that you discuss this particular point with your tax advisers in Spain before making a decision in this sense.

3. HOW ARE LIFE ASSURANCE POLICIES TAXED IN SPAIN?

According to article 14.2.h of Spanish Personal Income Tax law, unit-linked life assurance policies will be considered Spanish tax compliant and hence will qualify for income tax deferral if any of the two following requirements are met:

- a. that the policyholder is not granted the power to amend or influence the investments linked to the policy, or
- b. that the policy's mathematical provisions are invested in either:
 - i. shares or participations in collective investment institutions (CIIs), predetermined in the life assurance contract, provided that they are CIIs adapted to Spanish legislation on collective investment institutions or covered by Directive 2009/65/EC5 (known as the UCITS Directive, or
 - ii. baskets of assets shown separately in the insurer's balance sheet, if said baskets of assets comply with all the following requirements:
 - › the determination of the assets comprising each basket of assets shall at all times be the responsibility of the insurer who, for these purposes, shall be completely free to choose the assets, only subject to generally defined criteria relating to the risk profile of each basket of assets or any other objective circumstances, and

- › the investments of each basket of assets must be done in assets that meet the requirements established in Article 89 of Royal Decree 1060/2015, of November 20, on organisation, supervision and solvency of insurer and reinsurer entities, which establishes the different investment rules for insurer and reinsurer companies. Under no circumstances, these could be invested in real estate assets or rights.

These requirements are deemed to be met for those baskets of assets, which follow an investment strategy that replicates a stock or fixed-income index representative of any official secondary stock market of the European Union.

The policyholder will only have the power to choose, among the different baskets of assets, in which one the insurer should invest the mathematical provision of the policy, but in no way may intervene in the determination of the specific assets in which, within each separate basket, such provisions are invested. This means that in these contracts, the policyholder or the life assured may choose, in accordance with the policy specifications, between the different collective investment institutions or separate baskets of assets, expressly designated in the policy, without being able to create specifications for each policyholder or life assured.

It is important to understand that these conditions indicate above must be met during the whole life of the policy in order to provide tax deferral in Spain. This means that the policy must comply with these requirements from its inception and that it cannot be endorsed at a later stage to comply with them.

For Spanish tax compliant life assurance policies, all positive or negative income derived from a total or partial surrender of a policy shall be considered as income from movable capital and thus, subject to tax in Spain at the savings income tax rates (e.g. from 19% to 30%). The taxable income amount will be determined by the difference between the sum collected by the policyholder and the amount of the premiums paid. Any loss may be compensated with other

positive savings income generated in the same tax year or in the following four years and, in some cases with certain limits, also with the positive balance of any capital gain.

If none of the requirements listed above are met, the life assurance policy will not qualify for income tax deferral and therefore it will be deemed as non-tax compliant in Spain. In that case, the policy will be taxed on annual basis on a mark to market basis. This means that the difference in value between 31 December and 1 January each year will be considered the taxable base for personal income tax purposes in Spain for the Spanish resident taxpayer. This will be the case even in there are no surrenders from the policy in a given tax year.

4. HOW IS MY FINNISH COMPLIANT LIFE ASSURANCE POLICY LIKELY TO BE TAXED IN SPAIN?

The taxation of your Finnish tax compliant life assurance policy in Spain will depend on whether the policy meets the requirements of article 14.2.h of the Personal Income Tax law, as previously explained in section 3 of this brochure.

Assuming that your existing Finnish tax compliant policy does not meet any of the requirements established for a life assurance policy to provide tax deferral benefits in Spain from its inception and during the whole life of the policy,

it shall be deemed to be non-Spanish tax compliant. Thus, this means that your life assurance policy would not provide any tax deferral benefits in Spain. Instead, you must declare the annual growth in your policy (i.e. the policy will be taxed on mark to market basis) and you will pay Spanish Personal Income Tax at the respective savings income rates, even if there have been no surrenders.

5. DOUBLE TAX AGREEMENT

Finland and Spain have a double tax agreement in place, which usually spare you from double taxation:

- › under bilateral tax agreements, the amount of tax you pay in your country where you work will be offset against the tax you owe in the your country of residence; and

- › in other cases, the income earned in the country where you work might be taxable only in that country and exempt from tax in your country of residence.

6. WHAT ARE MY OPTIONS?

Depending on your particular situation, you may opt for any of the following solutions:

- › Keep your existing life assurance policy in force after taking up residence in Spain.
- › Surrender your existing life assurance policy whilst still considered tax resident in Finland and reinvest the proceeds in a Spanish compliant life assurance policy.
- › Surrender your existing life assurance policy once you are considered tax resident in Spain and reinvest the proceeds in a Spanish compliant life assurance policy.

These options are explained in more detail below with illustrative examples for your consideration. However, we strongly recommend that you discuss this with your Finnish and Spanish tax advisers before making a decision in this sense.

6.1 Keep the policy in force after taking up residence in Spain

If you decide to keep your non-Spanish tax compliant policy when you move to Spain and become Spanish tax resident, Spanish Personal Income Tax will be payable based on the growth of the policy on a mark to market basis each year

(i.e. the annual growth will be subject to tax in Spain even if there are no surrenders from the policy) and additionally, surrenders will also be subject to tax in Spain.

Example

In this fictitious example, €250,000 was originally invested in a Finnish life assurance policy on 1 January 2020 when the policyholder was resident in Finland. The surrender value on 1 January 2024 was €300,000 when the policyholder moved to Spain (with the intention of becoming Spanish tax resident) and the surrender value on 31 December 2024 was €320,000. Assumption made that the Spanish resident policyholder has no other savings income or capital gains in 2024 and that no partial surrenders were made in 2024.

Mark to market gain in 2024 is €20,000.

Tax on €20,000 is €6,000 at 19% + €14,000 at 21% = €4,080

TAXABLE AMOUNT OF SAVINGS INCOME ¹	PERSONAL INCOME TAX PAYABLE ON SAVINGS INCOME ¹
€20,000	€4,080

6.2 Surrender whilst tax resident in Finland and reinvest in a Spanish compliant policy

If you fully surrender your existing life assurance policy whilst still considered tax resident in Finland and non-resident in Spain, it will be taxed in Finland as follows:

When the policy is fully surrendered it will be subject to capital gains tax in proportion to the gains on the policy at the time of surrender. Taxable capital income from all sources is subject to 30% tax rate for taxable capital income of €30,000 and 34% tax rate on the excess.

It is possible to offset losses at the termination of the policy against other capital income.

If after surrendering your Finnish policy, you subsequently decide to invest the proceeds into a new Spanish tax compliant life assurance policy when you move to Spain, it will qualify for income tax deferral purposes in Spain, which means that you will only pay tax if you make a partial or total surrender. The taxable amount will be based on the difference between the surrender value of the policy and the premiums paid.

Example

In this fictitious example, €250,000 is invested in a Spanish tax compliant life assurance policy on 15 January 2024 by a Spanish resident policyholder. On 1 July 2024, this policyholder takes a part surrender of €15,000 when the surrender value of the policy was €310,000.

Gain on a part surrender of €15,000 on 1 July 2024 is €2,904.

Tax on €2,904 is €2,904 at 19% = €552

TAXABLE AMOUNT OF SAVINGS INCOME ¹	PERSONAL INCOME TAX PAYABLE ON SAVINGS INCOME ¹
€2,904	€552

6.3 Surrender when tax resident in Spain and reinvest in a Spanish compliant policy

If you decide to surrender your non-Spanish tax compliant life assurance policy when you are already considered Spanish tax resident, this will be subject to Spanish personal income tax based on the difference in value of the policy, as shown in the illustration below.

Example:

In this fictitious example, €250,000 was originally invested on 1 January 2020 when the policyholder was resident in Finland. The surrender value on 1 January 2024 was €300,000 when the policyholder moved to Spain with the intention of becoming Spanish resident in 2024.

Assumption made that the Spanish resident policyholder has no other savings income or capital gains in 2024.

Gain on full surrender of non-tax compliant policy on 1 January 2024 is €50,000.

Tax on €50,000 is €6,000 at 19% + €44,000 at 21% = €10,380

TAXABLE AMOUNT OF SAVINGS INCOME ¹	PERSONAL INCOME TAX PAYABLE ON SAVINGS INCOME ¹
€50,000	€10,380

If the policyholder subsequently decides to invest the proceeds of €300,000 into a new Spanish tax compliant life assurance policy, it will qualify for tax deferral purposes in Spain, as previously explained.

This document is based on Utmost PanEurope's understanding of the taxation and legal framework in Spain as at May 2025. However, Utmost PanEurope does not provide tax or legal advice and can accept no responsibility for any act or failure to act based upon its content. Therefore, we strongly recommend that you seek your own tax and legal advice based on your personal circumstances.

¹ These estimated calculations are based on our understanding of the current Spanish rules and have been simplified and rounded up for illustrative purposes.

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