



Good News on Spanish Mortgage Tax

In November 2018 the Spanish government passed a decree regarding the payment of Spanish mortgage tax known as AJD (Actos Juridicos Documentos). The new legislation states that it is now the obligation of the banks to pay this mortgage tax rather than the property buyer as had been the case until now. The decree also ensures that the banks cannot deduct this cost on their tax returns. This AJD mortgage tax is comparable to stamp duty in UK, although in fact, in the case of Spain, the mortgage tax is actually paid to the autonomous regional government of the region where you purchase your property and not to the central Spanish government. There are 17 autonomous regions in Spain in total and so, for example, if you purchase in the Costa del Sol, the mortgage tax is payable to the Andalusian regional government (Junta de Andalucia) or if you buy in the Costa Blanca, it is payable to the Valencian Regional Government.

This final government ruling in favor of the property purchaser was the outcome of several days of chaotic too-ing and fro-ing by the Spanish Supreme Court, who initially decided that the situation would remain the same and that it would continue to be the buyer's responsibility to pay the tax, only to be overruled by the current Spanish government in the form of a decree which enforces the lenders to pay the tax and not the buyer.

The government's announcement was a response to the popular and political outrage that followed the initial court decision and was seen by many as an opportunistic political move by the Spanish central government currently run by the Socialist party. The Socialists came to power in Spain last year following a vote of no confidence against the central right Partido Popular party and they are currently governing from a very weak minority position, in fact the smallest majority position of a government in Spanish democratic history. The Socialist leader, Pedro Sanchez, therefore grabbed his chance to gain popularity and more importantly a possibility to gain support from the Spanish voters,

especially with general elections due in the short to midterm, by issuing this new decree.

The debate continues however, as there have been talks about making this ruling retrospective for the last four years, which would mean that those buyers who took out a mortgage in Spain within the last four years would be able to request a refund on this mortgage tax. However, a decision to make the lenders pay the tax retroactively over four years could cost them around 5 billion euros so the feeling is that this is unlikely to happen. I think it is fair to say, however, that there will be further changes afoot regarding Spanish mortgage lending especially in the light of the EU Credit Directive, which still needs to be fully transposed in Spain.

Politics aside, the reality is that this will result in Spanish mortgage tax now being paid by the banks and not the purchasers, thus easing on the up-front costs for buyers, which is **very good news** for both Spanish and foreign property buyers. Having said that, the banks may try to make up this extra cost to them in other ways such as by increasing rates.

The positive result is that lower up-front costs, coupled with still very low interest rates for resident and non-resident buyers, which start from around 1.9%, make the possibility of taking a Spanish mortgage more attractive for foreign buyers. If we also take into account the current GBPEUR exchange rates, it makes sense for UK buyers to borrow the maximum amount in EUR and therefore minimise their exposure to current unfavorable exchange rates. Our Spanish mortgage packages will then offer clients the possibility of reducing their mortgage amount in the future when exchange rates hopefully will be more favorable to UK purchasers.

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