

## TAX CHANGES IN ANDORRA

The Principality of Andorra is a sovereign state located in European territory on the border between Spain and France. Although it is small country, both in population (80 000 inhabitants) and size, Andorra has a modern and dynamic economy and now seeks certain legislative changes to avoid missing the boat towards globalization.

Currently Andorra's economy is based on trade, tourism and a financial system that favors banking secrecy. The inexistence of a modern tax system and a lack of exchange of tax information means that Andorra has been qualified as a tax haven not only by its neighboring countries but also by the OECD. To date, Andorra is one of 5 territories listed by the OECD as a "tax haven".

Being on the OECD list does not imply that there is national approval and a lack of political determination on Andorra's part. On the contrary, the Andorran legislative has put in motion a set of internal reforms that are currently being debated in parliament and once passed will require that Andorra be reconsidered as a "tax haven".

These draft bills include a set of measures described as a "Tax Package". They are categorized as the following:

- A new and modern Corporations Law
- An Accounting Law, which adapts itself to the European General Accounting Plan and which will result in having to present annual accounts and conduct audits according to volume of turnover and the number of employed workers.
- A Foreign Investment Law, which establishes certain limits for free foreign investment in Andorra, and specifies that there are some sectors which are protected in line with Andorran economic interests.

These sectors, in ranking order of protection, are the following:

1. Business sectors reserved for nationalization (energy, electricity, telephony).
  2. Sectors with limited opening for investment like tourism, construction and trade. To date, a maximum of 33% foreign participation has been allowed. The new law allows for an increase of foreign investment of around 50%. A transition period of 4 years has also been included in the new law after which there will be unlimited opening and freedom of foreign investment.
  3. Sectors with total and automatic opening for investment. It is also expected to allow certain companies to invest in sectors such as new technologies and other sectors that have yet to be developed.
- A Corporate Income Tax law will establish a rate of around 10%.

Part of this plan to end Andorra's qualification as a tax haven is the impulse by the Andorran government to set up agreements to avoid double taxation with Spain, France and Portugal.

Apart from these new changes, to be introduced within the next 6 months, it is also important to recognize the effort of the Andorran authorities regarding tax offences, which already appears in the Andorran Penal code. When such a case occurs, the procedure is not automatic and the petitioning country has to send a formal request to Judge Batlle who, at his discretion, will agree if all legal requirements are fulfilled.

The European Community and the Principality of Andorra also signed an agreement to establish equivalent measures to those set out in the 2003/48/CE Cabinet Directive on the subject of the taxation of savings returns in the form of interest payments. (Diario Oficial L114 04.05.2005)

There can be no doubt that there is no going back for Andorra and that it is well on its way into the international arena. It will mean greater competitive advantages for Andorra but without the tax haven label. If the set of legislative measures are approved, Andorra will be able to offer important advantages at tax level giving it the edge over other tax systems. It will complete Andorra's institutional security and international recognition with a modern and efficient fiscal and corporate legislation.

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