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## MADRID PASSES “THE MBAPPÉ LAW” TO ATTRACT INVESTORS FROM ABROAD

On November 14<sup>th</sup>, the Assembly of Madrid has passed the so known as “Mbappé Law”, which aims to incentivize the arrival of new investors from abroad, encouraging the employment generation and the incorporation of new companies.

With retroactive effects as from January 1<sup>st</sup>, 2024, it will be applicable a tax allowance in the PIT up to 20.5% of the taxable base. Meaning that, the maximum tax rate of the PIT in the Community of Madrid for those who opt for the aforementioned measure, could be 24.5% (compared to the general tax rate of 45%).

The tax incentive consists of a 20% tax credit applicable to the PIT liability over the regional tranche that is applied on the acquisition value of the investments performed on (i) securities representing the transfer of equity capital, whether or not traded on organized markets and (ii) securities representing equity interests in any type of entity, whether or not traded on organized markets. For example: investments made in bonds, debentures, treasury bills and shares, among others.

The requirements to benefit from this tax allowance are as follows:

1. **Moment in which the investment must be made:** the investment can be made only once and must be made in the year when the individual becomes tax resident or in the following year. As an exception, it also can be made the year before becoming tax resident if the investment is made in Spanish entities.



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2. **Requirements of the entity on which the investment is going to be made:**
  - a. It must not be incorporated or domiciled in any non-cooperative jurisdiction.
  - b. The investment must not be made in the real state sector.
  - c. The direct or indirect participation of the new taxpayer in the Community of Madrid cannot exceed 40% of the capital or voting rights, taking this percentage into account jointly with the participation of the spouse or any person related to the investor, in a direct or collateral line, by blood or affinity, up to and including the second degree.
  - d. No executive or management functions must be performed, and employment relationship must not be maintained with the entity in which the investment is performed.
3. **Minimum maintenance period:** the investor must maintain the tax residence in Madrid and the capital of the investment for a minimum period of 6 years.
4. **Previous requirement:** the taxpayer must not have been considered as a tax resident in Spain in the five years prior to the change of residence to the Community of Madrid.

In summary:

- I. The “Mbappé Law” is an attractive incentive for investors residing abroad who are considering transferring their residence to the Community of Madrid.
- II. However, it should be noted that taxpayers who decide to apply this measure must maintain their investment for six years, otherwise they will have to return the amount deducted.



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- III. Our recommendation is to evaluate, on a case-by-case basis, whether it is more beneficial to apply the “Mbappé Law” or, when applicable, the special regime for displaced workers to Spanish territory (known as the “Beckham Law”), since both regimes are not compatible.

In this sense, it must be reminded, that the “Beckham Law” allows to opt to apply the non-resident tax law with certain particularities, whereby a tax rate of 24% is applicable on worldwide labor income up to the amount of 600,000 euros.

Furthermore, taxpayers who decide to apply the “Mbappé Law” will be taxed for Wealth Tax purposes on their worldwide wealth, while taxpayers who decide to apply the “Beckham Law” will only be taxed on the assets that they hold in Spain.

Finally, it should be noted that, unlike “Beckham Law”, there is no restriction on the application of the “Mbappé Law” by professional sportmen and women.

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We hope that you find this of assistance and, as always, **LAFFER ABOGADOS** is at your disposal for any clarification or additional information.

*The information contained in this document is for general purposes and it is not legal advice.*