# Spanish Portfolio Bond

## Tax Treatment

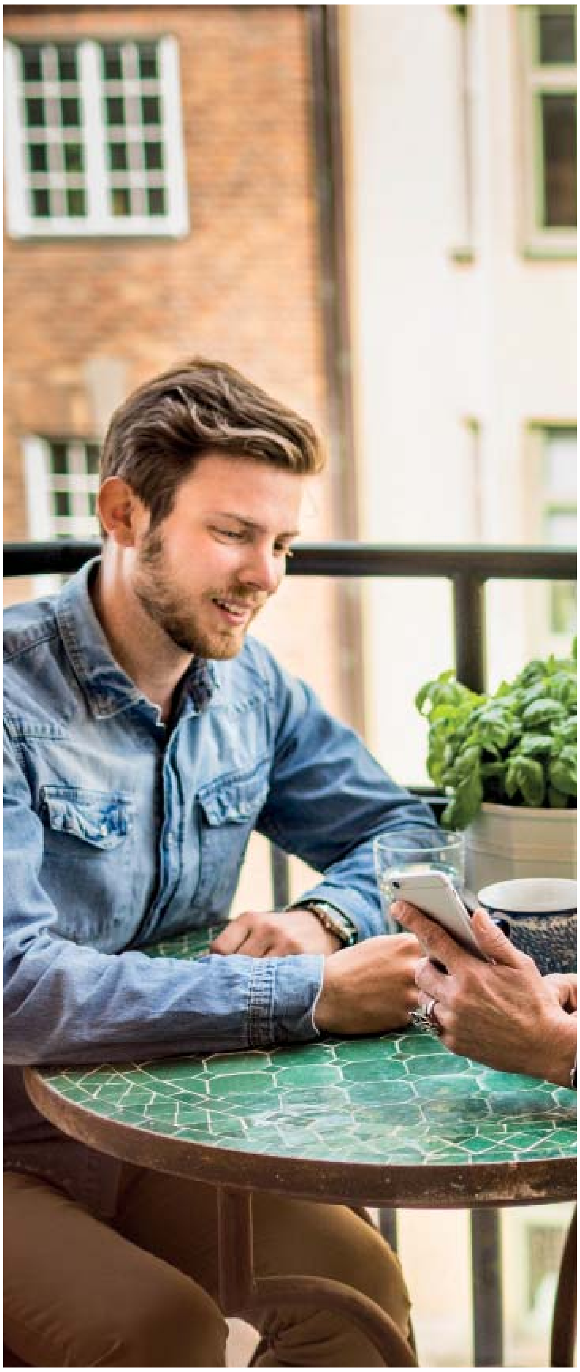
For Residents of Spain 2018

*This Guide summarises the tax treatment of SEB Life International's Unit Linked Insurance policy, the "Spanish Portfolio Bond", and explains how a life assurance policy can potentially help a policyholder with financial planning. While SEB Life International is unable to give tax advice, it is our understanding that the Spanish Portfolio Bond will be treated as outlined in this document under Irish and Spanish tax regulations.*

*Whilst every care has been taken in the preparation of the document, SEB Life International cannot accept responsibility for its interpretation or any subsequent changes in the taxation of the policy. We recommend that investors seek advice from their professional advisers regarding their own personal circumstances, as SEB Life International does not provide individual tax advice.*

*This document refers to the tax treatment for individual policyholders. Tax treatment for corporate policyholders is different, subjected to very specific rules, and as such not mentioned in this document.*

*Please note that the taxation principles and rates presented below are correct as April 2018 and are subject to change.*



## Irish tax treatment

The Spanish Portfolio Bond will not be liable for any Irish taxes apart from some potential dividend withholding tax on certain linked assets. This will provide Policyholders with an opportunity to defer payment of any tax on gains made within the Policy to a time and location chosen by the Policyholder. In addition, changes in the investment funds underlying the Policy *(which should comply with Spanish rules)* will not normally constitute taxable events provided they do not involve payments being made out of the Policy.

## Spanish tax treatment

For residents of Spain, taxation is based upon worldwide income on a self-assessment basis regardless of the policyholder's nationality.

Persons are deemed to be resident in Spain for tax purposes if any of the below applies:

- They spend more than 183 days resident in Spain during the calendar year *(1 January – 31 December)*. Sporadic or temporary absences will not interrupt residence.
- The centre of their economic interests and activities, directly or indirectly, is in Spain.

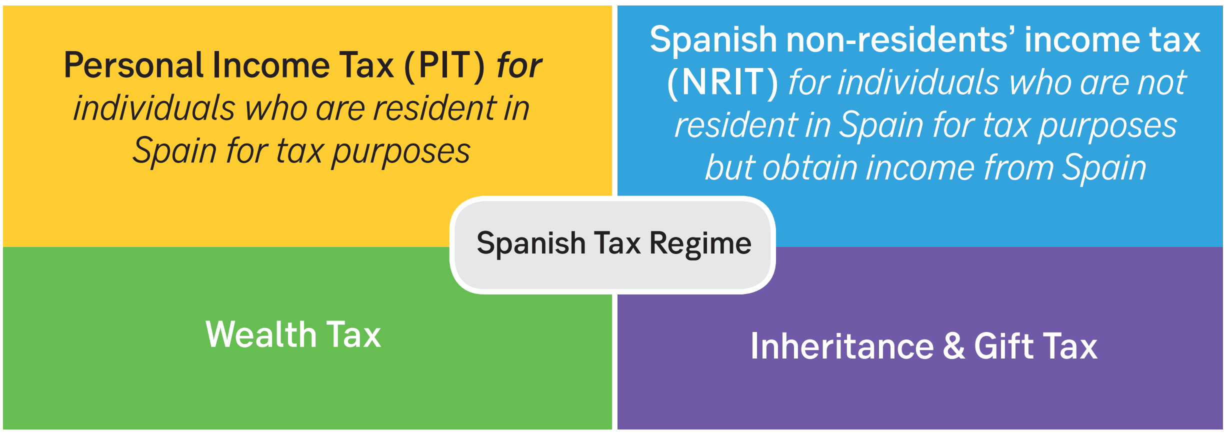
This document is based on the presumption that an individual will be resident in Spain if his/her *(non-legally separated)* spouse and minor dependent children have their habitual residence in Spain, subject to proof to the contrary.

**Special rules are applicable if:**

- Claiming residence in a deemed tax haven need to prove actual residence in that country for more than 183 days in the relevant tax year.
- One spouse lives in Spain and they are not legally separated even though the spouse living abroad may spend less than 183 days per year in Spain.

## Spanish life insurance tax regime

The main elements of the Spanish tax system applicable to individuals holding a Unit-linked life insurance contract include the following:



# Individual Income Tax

## Rules

**For Residents – Personal Income Tax (PIT):**

Residents in Spain are generally subject to PIT on their worldwide income, regardless of where it is generated, which is taxed following statutory reductions at progressive rates.

There are two types of taxable income for Spanish PIT purposes:

1. General taxable income *(renta general)*
2. Savings taxable income *(renta del ahorro)*

**1. General taxable income includes:**

- All income which is not savings is taxable income.
- Capital gains not generated from transfers of assets *(such as lottery prizes)*.
- Income allocations, attributions, or imputations, as established by law.
- Interest and other income generated from transferring the taxpayer's own capital to an associated company when the capital exceeds three times the associated company's equity and for the part corresponding to the excess.

**2. Savings taxable income is composed of the following:**

- Dividends and other income generated from holding interests in companies.
- Interest and other income generated from transferring the taxpayer's own capital to third parties. As an exception, when capital transferred to a related company exceeds three times the latter's equity, the interest corresponding to the excess is taxed as general taxable income.
- Income generated from capitalisation transactions and life and disability income insurance.
- Capital gains arising from transfers of assets.

## PIT Rates

1. For general taxable income, progressive tax rates are applied *(which are the sum of the applicable rate approved by the state and the applicable rate approved by each autonomous region of Spain in their progressive tax rate scales)*. For this reason, tax liability may differ from one autonomous region to another.
2. Savings taxable income is taxed at the following rates:

| Taxable base | Applicable rate |
|---|---|
| for the first €6,000 | 19% |
| from €6,000 up to €50,000 | 21% |
| over €50,000 | 23% |

# Wealth Tax

| | |
|---|---|
| **Rules & Rates** | Wealth Tax is levied on Spanish tax residents' worldwide net assets.<br><br>The tax is levied on the assets held by the taxpayer as of 31 December *(accrual date)* and collected by self-assessment.<br><br>The tax liability is calculated by applying the progressive rates established by each autonomous region in Spain to the net taxable base *(i.e. after applying tax relief).* |
| **Rates** | Each region can establish its own scale of progressive rates. The effective rates of wealth tax will range from 0.2% to 2.5% on the excess after allowances have been considered.<br><br>Each resident individual has a tax free allowance of €700,000 plus a €300,000 allowance on his own home. If a couple owns a property in joint names, each gets the €300,000 allowance. |
| **Useful information to know** | The following reliefs are applicable for this tax:<br><br>• A minimum tax-exempt amount.<br>• Note that every autonomous region of Spain can establish its own minimum tax-exempt amount.<br>• If an autonomous region does not establish its own minimum tax-exempt amount, the amount established by Spanish law for the tax free allowance *(€700,000)* will be applicable.<br>• Some assets are exempt from that tax, such as certain household contents *(but excluding valuables such as jewels, vehicles, boats, art and antiques, etc.)*, certain pension rights, owner managed small businesses and business assets *(with conditions).*<br>• Loans are deductible in calculating the net taxable wealth if they were not used to buy or invest in assets exempt from Spanish Wealth Tax.<br>• Irrevocable beneficiary clauses may reduce liability to Wealth Tax. |

# Inheritance Tax

| | |
|---|---|
| **Rules & Rates** | The tax base is the amount received by the beneficiary that must be added to the rest of the property and rights which form the beneficiary´s portion of the inheritance. This tax is applicable in all of Spain, but each region may establish its own regulations with certain limits, and they are entitled to collect the tax. |
| **Taxable events & allowances** | Death benefits will be subject to Spanish Inheritance and Gift tax when the policyholder and the beneficiary of the contract are not the same person.<br><br>Certain reductions and tax rebates can be applied to the taxable base. These reductions depend on the relationship between the policyholder and the beneficiary. The tax rate varies from 7.65% to 34% and varies depending on each region in Spain. |
| **Useful information to know** | There are specific rules applicable in: Andalucía, Cataluña, Valencia and Madrid.<br><br>In order to determine the relevant autonomous region to collect the tax, the tax payer must take into account the region where the deceased person had their habitual residence during the five previous years. |

# Inheritance & Gift tax rules for the autonomous regions –

For the rates, please see Appendix 1

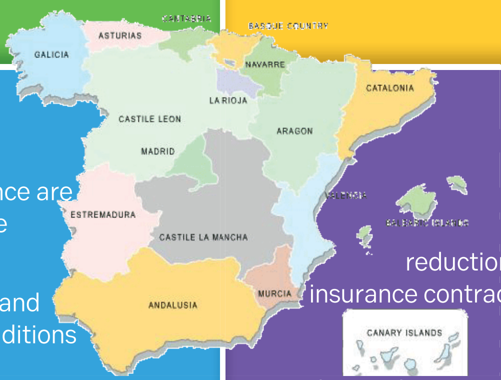
## Madrid

There is a specific tax reduction regarding life insurance contracts. This reduction amounts to 100% of the capital received by beneficiaries, with a limit of €9,200 provided that he/she is a biological/adopted descendant, spouse, or a biological/adopting ascendant of the deceased person.

Furthermore, Madrid establishes a special tax rebate regarding the Inheritance and Gift tax, by which any acquisition made through inheritance will give taxpayers the right to apply a tax rebate amounting to 99% of the gross tax due if he/she is a biological/adopted descendant, spouse, or a biological/adopting ascendant of the deceased person.

## Cataluña

There is a specific tax reduction regarding life insurance contracts. This reduction amounts to 100% of the capital received by beneficiaries, with a limit of €25,000 and provided that he/she is a descendant, ascendant or spouse of the deceased person. This tax reduction is applicable to each taxpayer.




## Andalucia

Tax reductions in case of inheritance are applicable to the spouse and close relatives.

This reduction amounts to 100% and will only apply if the following conditions are met:

- Taxpayers must be biological/adopted descendants, spouses, or biological/adopting ascendants
- Their previously existing wealth must
- be less than €402,678.11
- The taxable base must not exceed €175,000

## Valencia

Valencia's regulations establish a special tax reduction of 100% regarding life insurance contracts, with a limit of €9,195.49 provided that the tax payersare biological/adopted descendants, spouses, or biological/adopting ascendants.

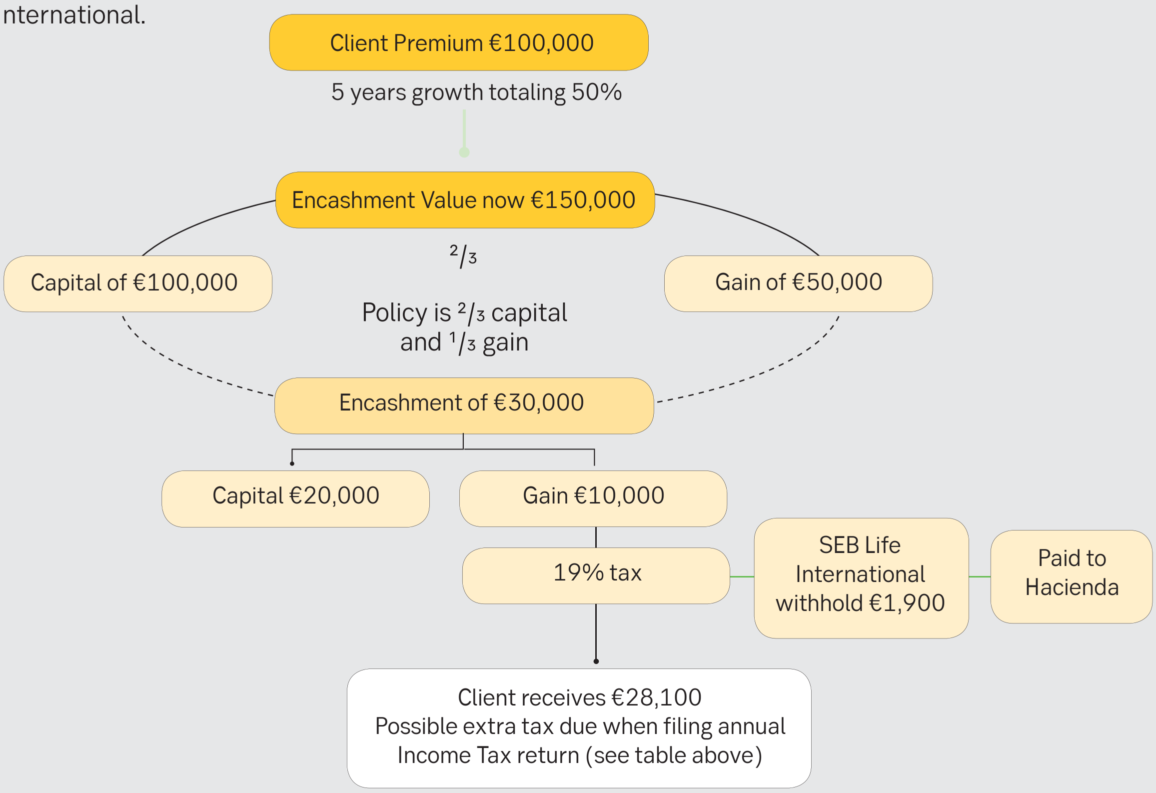
It establishes a tax rebate amounting to 75% of the gross tax due regarding the Inheritance and Gift Tax if the beneficiary is a biological/adopted descendant, spouse, or a biological/adopting ascendant of the deceased person.

# Tax treatment for withdrawals

**From April 2018, Policyholders resident in Spain are subject to additional Income Tax when filing their annual Income Tax return* (see table below).**

| Total Policyholder Savings Income | Potential Additional Tax* |
|---|---|
| €6,000 < €50,000 | +2% |
| €50,000 + | +4% |

The simplified example below demonstrates how the withholding tax liability is calculated by SEB Life International.




* These rates are expected to apply for 2018 but are subject to change.

# Non-Taxable events


This update is intended only as a guideline and should not be used as a substitute for technical advice. This information is based on information currently available, and our interpretation of this information. As and when further information becomes available we will update you.

The information set out above is based on SEB Life International's understanding of current tax legislation and practice in Spain. The above example applies to compliant products. It is the responsibility of the client/adviser to ensure that only tax compliant investments are held. This information applies to all policies issued from 20 January 2006 onwards.

# Exceptions for Non-residents

Spanish life insurance tax regime applies as that for residents, except for the following rules:

| | |
|---|---|
| Non-resident Income Tax *(NRIT)* rules & rates | **For Non-residents – Non-resident Income Tax *(NRIT):***<br>Residents in Spain are generally subject to PIT on their worldwide income, regardless of where it is generated, which is taxed following statutory reductions at progressive rates.<br>• Non-residents are subject to NRIT only on their Spanish-source income.<br>• Under Spanish law, the concept of part-year resident does not exist. An individual is either resident or non-resident and is taxed as such for the entire tax year.<br>However, in certain situations, a person may be resident for tax purposes in two different countries. This could be the case, for instance, of expatriates working in Spain who are resident in both Spain and their home country. A person who is resident in another country may qualify for a relief or exemption of Spanish tax under Double Taxation Treaties *(DTT)* and Agreements *(DTA)* between the home country and Spain.<br>For non-residents, income obtained without a Permanent Establishment is taxed at the following rates:<br>• General rate: 24%. For residents in other EU member states or EEA countries with which there is an effective exchange of tax information, the rate is 19% from 2018.<br>• Capital gains generated from transfers of assets: 19% from 2018.<br>• Interest: 19% from 2018. Interest is tax exempt for EU residents. DTTs normally establish lower rates.<br>• Dividends: 19% from 2018 *(DTTs normally establish lower rates)*.<br>• Royalties: 24%.<br>• Pensions are taxed at progressive rates between 8% and 40%. |
| Wealth tax rules & rates for non-residents | The Wealth Tax is levied on the assets held by the taxpayer as of 31 December *(accrual date)* and collects by self-assessment.<br>Non-residents are subject to the Wealth Tax only on their Spanish assets such as investments, savings and real estate.<br>The amount applicable will always be the amount established by Spanish law.<br>Non-residents receive the individual allowance of €700,000, but no allowance against their Spanish property. |

# Taxation administration on Life Insurance

**Spanish Tax Liability:** The Spanish Portfolio Bond qualifies as a unit-linked life assurance contract under Spanish law and as such has the same tax treatment as most savings products. Taxation in Spain occurs at a national level and at a regional ('Autonomous Community') level. It is our understanding that the following will apply to the Spanish Portfolio Bond:

## Individual Income Tax

Income Tax on Encashments as a life assurance product, the Spanish Portfolio Bond will be taxed on all gains but only when a Full or Partial Encashment takes place. This will be based on the difference between the unit price at time of investing the premium and time of encashing the units. SEB Life International acts as withholding agent for the fixed rate of 19% on all gains. Depending on their personal circumstances Policyholders may be subject to an additional income tax *(up to 4%)* when filing their annual Spanish Income Tax return.

## Annuity Option Income Tax

If you convert some or all of your Policy to an annuity, a proportion of each annuity payment received is subject to an income tax liability. As a general rule, a fixed percentage *(based on the duration of the annuity term)* is applied to each annuity payment received and this is then taxed, based on the same rules as explained in Section 12.2.1 above.

**Taxation Administration on Life Insurance**

## Wealth Tax

Liability to tax on death of the Relevant Life Assured will be dependent upon a number of factors, including the relationship between the Policyholder and the beneficiaries.

In cases where the beneficiary of the policy has a Non-Spanish residency, as the policies are deemed contracts exercised in the Spanish territory, the policyholder will be subject to the Spanish Wealth Tax in the same terms, unless the tax liability could be reduced or an exemption could apply as a consequence of an specific Double Taxation Treaty or other reason. According to the Spanish Wealth Tax Law, Non Residents have the right to apply the specific rules established by the Autonomous Regions where most of its goods and rights are located.

## Inheritance & Gift Tax

Liability to tax on death of the Relevant Life Assured will be dependent upon a number of factors, including the relationship between the Policyholder and the beneficiaries.

Inheritance Tax is payable by the beneficiaries who are tax resident in Spain at the date of death of the Relevant Life Assured. Non-resident beneficiaries are also liable for the payment of Inheritance Tax on the amount received as a death benefit, when such policy is considered a Spanish asset.

Additionally such person may also be liable to Inheritance Tax in their country of tax residence or in some cases country of nationality. Non-resident tax liability may be reduced by the application of a Double Taxation Treaty.

## Spanish Formalities for Beneficiaries

SEB Life International will ensure that the beneficiary of the policy has paid the corresponding Inheritance tax before paying the benefits of the contract as the insurance company is subsidiary responsible of paying such tax.

Please note that tax deferral is available as long as the assets linked to the policy comply with Spanish regulation, meaning that if the client links non-EEA or UCIT to his/her policy then he/she will have to pay tax annually.

# General tax implications regarding the taxation of a Unit Linkeded product depend on whether or not, the policyholder and the beneficiary is the same person.

## When the policyholder is not the Beneficiary but is the Life Assured

| Situation | Tax Residency | Personal Income Tax (PIT) | NRIT | Inheritance Tax | Gift Tax | Wealth Tax |
|---|---|---|---|---|---|---|
| Policyholder ≠ Beneficiary but = Life Assured | Spanish Tax Residence | N/A | N/A | Death benefits will be subject to Spanish Inheritance Tax when the policyholder and the life assured are the same person but the beneficiary of the contract is a different one.<br><br>No withholding tax is applicable to the benefits paid.<br><br>SEB must ensure that the beneficiary of the policy has paid the corresponding Inheritance tax before paying the benefits of the contract as the insurance company is subsidiary responsible of paying such tax. | N/A | N/A |
| | Non Spanish Tax Residence | N/A | N/A | Same rules apply in cases where the beneficiary of the policy has a Non Spanish residency as the policies are deemed contracts in Spain, unless the Inheritance Tax liability may be reduced or an exemption may apply under a specific Double Taxation Treaty. | N/A | N/A |

## When the policyholder is neither the Beneficiary neither the Life Assured

| Situation | Tax Residency | Personal Income Tax (PIT) | NRIT | Inheritance Tax | Gift Tax | Wealth Tax |
|---|---|---|---|---|---|---|
| Policyholder ≠ Beneficiary and ≠ Life Assured | Spanish Tax Residence | N/A | N/A | N/A | N/A | Death benefits will be subject to Spanish Gift Tax when the policyholder, the life assured and the beneficiary of the contract are not the same person.<br><br>No withholding tax is applicable to the benefits paid.<br><br>SEB must ensure that the beneficiary of the policy has paid the corresponding Gift Tax before paying the benefits of the contract as the insurance company is subsidiary responsible of paying such tax. |
| | Non Spanish Tax Residence | N/A | N/A | N/A | N/A | Same rules apply in case that the beneficiary of the policy has a Non Spanish residency as the policies are deemed contracts celebrated in Spain, unless the Gift tax liability may be reduced or an exemption may apply under an specific Double Taxation Treaty. |

# Appendix 1 – Inheritance Tax rates for the autonomous regions

## Andalucía

| Taxable base Up to | Gross tax due | Rest of the taxable base Up to | Tax Rate |
|---|---|---|---|
| €0 | €0 | €7.993,46 | 7,65% |
| €7.993,46 | €611,50 | €7.987,45 | 8,50% |
| €15.980,91 | €1.290,43 | €7.987,45 | 9,35% |
| €23.968,36 | €2.037,26 | €7.987,45 | 10,20% |
| €31.955,81 | €2.851,98 | €7.987,45 | 11,05% |
| €39.943,26 | €3.734,59 | €7.987,46 | 11,90% |
| €47.930,72 | €4.685,10 | €7.987,45 | 12,75% |
| €55.918,17 | €5.703,50 | €7.987,45 | 13,60% |
| €63.905,62 | €6.789,79 | €7.987,45 | 14,45% |
| €71.893,07 | €7.943,98 | €7.987,45 | 15,30% |
| €79.880,52 | €9.166,06 | €39.877,15 | 16,15% |
| €119.757,67 | €15.606,22 | €39.877,16 | 18,70% |
| €159.634,83 | €23.063,25 | €79.754,30 | 21,25% |
| €239.389,13 | €40.011,04 | €159.388,41 | 25,50% |
| €398.777,54 | €80.655,08 | €398.777,54 | 31,75% |

## Cataluña

| Taxable base Up to | Gross tax due | Rest of the taxable base Up to | Tax Rate |
|---|---|---|---|
| €0 | €0 | €50.000 | 7% |
| €50.000 | €3.500 | €150.000 | 11% |
| €150.000 | €14.500 | €400.000 | 17% |
| €400.000 | €57.000 | €800.000 | 24% |
| €800.000 | €153.000 | And Above | 32% |

## Madrid

| Taxable base Up to | Gross tax due | Rest of the taxable base Up to | Tax Rate |
|---|---|---|---|
| €0 | €0 | €8.313,20 | 7,65% |
| €8.313,20 | €635,96 | €7.688,15 | 8.50% |
| €16.001,35 | €1.289,45 | €8.000,66 | 9,35% |
| €24.002,01 | €2.037,51 | €8.000,69 | 10,20% |
| €32.002,70 | €2.853,58 | €8.000,66 | 11,05% |
| €40.003,36 | €3.737,66 | €8.000,68 | 11,90% |
| €48.004,04 | €4.689,74 | €8.000,67 | 12,75% |
| €56.004,71 | €5.709,82 | €8.000,68 | 13,60% |
| €64.005,39 | €6.797,92 | €8.000,66 | 14,45% |
| €72.006,05 | €7.954,01 | €8.000,68 | 15,30% |
| €80.006,73 | €9.178,12 | €39.940,85 | 16,15% |
| €119.947,58 | €15.628,56 | €39.940,87 | 18,70% |
| €159.888,45 | €23.097,51 | €79.881,71 | 21,25% |
| €239.770,16 | €40.072,37 | €159.638,43 | 25,50% |
| €399.408,59 | €80.780,17 | €399.408,61 | 29,75% |

## Valencia

| Taxable base Up to | Gross tax due | Rest of the taxable base Up to | Tax Rate |
|---|---|---|---|
| €0 | €0 | €7.993,46 | 7,65% |
| €7.993,46 | €611,5 | €7.668,91 | 8,50% |
| €15.662,38 | €1,263,36 | €7.831,19 | 9,35% |
| €23.493,5 6 | €1.995,58 | €7.831,19 | 10,20% |
| €31.324,75 | €2.794,36 | €7.831,19 | 11,05% |
| €39.155,94 | €3.659,70 | €7.831,19 | 11,90% |
| €46.987,13 | €4.591,61 | €7.831,19 | 12,75% |
| €54.818,31 | €5.590,09 | €7.831,19 | 13,60% |
| €62.649,50 | €6.655,13 | €7.831,19 | 14,45% |
| €70.480,69 | €7.786,74 | €7.831,19 | 15,30% |
| €78.311,88 | €8.984,91 | €39.095,84 | 16,15% |
| €117.407,71 | €15.298,89 | €39.095,84 | 18,70% |
| €156.503,55 | €22.609,81 | €78.191,67 | 21,25% |
| €234.695,23 | €39.225,54 | €15 6.263,15 | 25,50% |
| €390.958,37 | €79.072,64 | €390.958,37 | 29,75% |
| €781.916,75 | €195.382,76 | And Above | 34,00% |

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