

## Tax advisory

### Tax update on the Canary Islands Special Zone (ZEC)

September 2017

In May the European Commission issued an opinion in which it announced that it was simplifying the rules for state aid in the outermost regions.

Consequently, in June, the Commission approved several amendments to the General Block Exemption Regulation, which enables Member States to implement a wide range of state aid measures without prior Commission approval. These state aid measures include measures which are applicable to outermost regions, such as the Canary Islands.

The amended Regulation includes an increase in the maximum permitted levels for total (cumulative) state aid, and are applicable to companies in the Canary Islands that benefit from the tax incentives of the Canary Islands Tax and Economic Regime (REF).

These incentives form part of the tax regime that is applicable in the Canary Islands Special Zone (ZEC). This area is a low tax zone that was created for the purpose of promoting the economic and social development of the archipelago, and to stimulate the diversification of its productive structure. ZEC entities that meet certain requirements and are registered in the Official Registry can benefit from a 4% reduced corporate income tax rate on the part of their taxable base that corresponds to transactions performed in the ZEC.

In this regard, European rules had set a limit to the amount of taxable income eligible for the 4% rate in the Canary Islands Special Zone, applicable as from January 2015. In line with this limit, the reduction of the gross tax payable by a ZEC entity, after applying the special 4% tax rate, could not exceed 17.5% of the net revenues of the ZEC entity when the entity belonged to the industrial sector. This limit was set at 10% where the entity belonged to another sector.

However, after the Commission's approval of the amended Regulation in June 2017, this limit has been increased to 30% for all sectors.

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