# ANDORRA: A COMPREHENSIVE TAX AND LEGAL ANALYSIS

**Author**
Albert Folguera Ventura

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Albert Folguera Ventura is the C.E.O., partner, and Head of Tax at Addwill Partners, Barcelona, Madrid and Andorra. His practice focuses on international tax advice and planning for companies and individuals in Spain and Andorra. He is a part-time lecturer on international taxation at the University of Barcelona.

## INTRODUCTION

Andorra is a tiny landlocked principality nestled in the Pyrenees mountains between France and Spain. It boasts a unique history and political structure originating in feudal times. Andorra is a Co-Principality that is shared by the Catholic Bishop of Urgell in the north of Catalonia and the President of the Republic of France. At the same time, it operates as an independent parliamentary democracy.

Less than a three-hour drive from Barcelona, Andorra is known for its ski resorts, mountains, long streets lined with stores, and low crime rate. Perhaps the country's biggest attraction is taxation. Hundreds of high net worth individuals, such as content creators, cyclists, YouTubers, gamers, Moto GP racers, poker players, big online marketers, traders, and crypto investors have established residence in Andorra. The country is linguistically diverse. Catalan is the official language, and Spanish, French, English, and Portuguese are widely spoken.

This article provides a brief introduction to the rich history of Andorra. It then addresses the legal and tax facets of residence.

## HISTORY

Legend has it that Charlemagne founded Andorra in the year 805, though the first mention of the country appears in the Act of Consecration of the Cathedral of Santa Maria d'Urgell in the middle of the 9th century. In the 13th century, a conflict over Andorra's sovereignty arose between the religious authorities of Urgell and the counts of the region. The conflict was resolved in 1278 by an agreement between the French Count of Foix and the bishop of La Seu d'Urgell, who shared their power over the country (the "Co-Princes"). This agreement gave the small principality its territory and the current form of government, that of a Co-Principality. The Co-Princes are jointly and severally the Heads of State.

On January 14, 1982, Andorra's first government took office, separating the legislative power from the executive for the first time. In the early 1990's, Andorra signed an agreement with the European Economic Community and a new penal code was adopted, while the population continued to grow rapidly. On March 14, 1993, the second written constitution in its history was approved by referendum, dismantling the last feudal remnants of Andorra's government by declaring the Andorran people as the sole sovereign of the state. The power of the Co-Princes was reduced and a modern parliamentary system of government was created. On July 28, 1993, Andorra became a full member of the United Nations.

The Euro is the official currency of Andorra by virtue of the monetary agreement signed with the European Union.

In 2022, Andorra's G.D.P. reached €3.188 billion, with a per capita G.D.P. of €39,068, placing it in a prominent position internationally.

## TAXATION

### Andorra as a Tax-Approved Jurisdiction

Andorra has been included for decades in international lists of tax havens due to its bank secrecy and its refusal to exchange tax information with other jurisdictions. Despite that history, Andorra has worked diligently to enhance transparency and to promote international cooperation.

Currently, most O.E.C.D. members and all E.U. Member States recognize Andorra as a tax-approved jurisdiction for the following reasons:

- Its commitment to transparency and international cooperation
- The existence of bilateral agreements on exchange of tax information upon request
- Its participation in the O.E.C.D.'s automatic exchange of information agreement known as the Common Reporting Standard ("C.R.S.")
- Its removal from the O.E.C.D. list of non-cooperative tax havens May 2009, and its removal from the ECOFIN list in 2018 after its participation in the B.E.P.S. Inclusive Framework
- The ongoing negotiations regarding the execution of an association agreement with the E.U., which will result in a closer relationship with the 27 Member States of the E.U., even though taxation is excluded from the negotiations

In sum, Andorra is widely considered to be a jurisdiction that complies with the requirements of minimum taxation, tax fairness, and tax transparency. It is also a country with a stable and reliable legal and tax system. All of this makes it attractive for foreign investors.

### Transition to Openness

#### *Andorra's Modern Tax System*

Andorra's tax system has evolved in accordance with the activity and economic structure of the country, and the tax base has been broadened in order to distribute the weight of the tax burden in a more optimal manner, moving from reliance mostly on indirect taxes to a modern system of direct taxation.

In 2013, the current General Indirect Tax was adopted, replacing most existing indirect taxes on consumption. This move created a more neutral and efficient framework for businesses and a fairer system for citizens. The general rate of the indirect tax is 4.5% for most items and 1% for goods and services related to health, education, culture, food, and rentals. The rate is much lower than rates in France (20%) and Spain (21%), its neighboring countries.

State direct taxation commenced in 2006, with the implementation of the tax on capital gains in real estate transactions. In 2010, the Company Income Tax law and the

Nonresident Tax Law were passed. Finally, in 2014, Personal Income Tax was introduced, completing the configuration of the Andorran tax framework, and introducing a tax comparable in concept to those in other European and O.E.C.D. countries.

*Double Taxation Agreements*

In 2013 Andorra signed its first bilateral Double Taxation Agreement ("D.T.A.") with France, which entered into force on July 1, 2015. Andorra's D.T.A. with Spain was signed in early 2015 and entered into force on February 26, 2016. Today, D.T.A.'s exist with (i) France, (ii) Spain, (iii) Luxembourg, (iv) Liechtenstein, (v) Portugal, (vi) the United Arab Emirates, (vii) Malta, (viii) Cyprus, (ix) the Republic of Saint Marino, and (x) Hungary. D.T.A.'s with Germany and the Netherlands are currently under negotiation.

## CURRENT TAX SITUATION

No wealth tax, inheritance and gift taxes, or exit tax exist in Andorra. Therefore, the two main direct taxes applicable are Personal Income Tax and Corporate Income Tax.

***"No wealth tax, inheritance and gift taxes, or exit tax exist in Andorra."***

**Personal Income Tax ("P.I.T.")**

*Taxpayers Subject to This Tax Are Individuals with Tax Residency in Andorra*

The income of individuals considered to be tax resident in Andorra is taxed on a worldwide basis.

Individuals are considered to be tax residents in Andorra in either of the following circumstances:

- The individual resides in the Andorran territory for more than 183 days during the calendar year. For this purpose, sporadic absences are disregarded, unless the taxpayer can prove tax residency in another country.
- The individual's center of vital interests or base of activities or economic interests is located directly or indirectly in Andorran territory. If an individual's spouse and minor children are resident in Andorra, the individual is presumed to be tax resident in Andorra unless legally separated from the spouse.

*Transactions Exempt from P.I.T.*

Several exempt or zero-rated transactions make Andorra attractive for resident investors:

- Dividends and other income derived from participation in net assets are exempt, when paid by tax-resident entities in Andorra or by Andorran collective investment undertakings subject to the Andorran Corporate Tax.
- Capital gains[1] resulting from the transfer or redemption of shares or stakes in collective investment organization are exempt.

[1] It follows that if a transaction is of a type for which capital gains are not taxed, capital losses incurred from that type of transaction are not deductible.

- Capital gains resulting from the transfer of shares are exempt when the transferor and certain related parties collectively own less than 25% of the capital during the twelve months preceding the transfer.

- Where the transferor and related parties collectively own more than 25% of the capital of the issuing company, capital gains resulting from the transfer of shares are exempt when those shares have been held for ten years or more.

- Capital gains from the transfer of real estate located outside the Andorran territory when the taxpayer has owned these properties for at least ten years prior to the transfer.

*Main Reductions to P.I.T.*

Taxpayers have the right to apply several reductions, the most relevant ones being the minimum personal reduction, the reduction on contributions made to pension plans, and the €3,000 exemption for financial income realized.

- The minimum personal reduction amounts to €24,000. The reduction is increased to €40,000 where the spouse or life partner living with the taxpayer receives no income.

- The reduction for contributions made to pension plans is based on the actual contributions made. The reduction is capped. It cannot exceed the lower of (i) 30% of the net income from employment and economic activities and (ii) €5,000 per year.

*Tax Rate*

The tax payable is determined by applying a flat 10% tax rate to the tax base of the individual. In computing the tax base, the reductions discussed above are taken into account as well as deductions to eliminate domestic and international double taxation within certain limitations.

The following example illustrates the computation of the tax base. In the facts presented below, an individual with a total income of €270,000 would only end up paying a total of €11,300, which represents an effective average tax rate of 4.18%.

*Example*

**Personal Circumstances**

- Male

- Married (the spouse does not earn any income)

- Two children under 25 years

**Income**

- Salary: €100,000

- Capital gains: €10,000 for the sale of shares of a company (<25% of shares during 2 years)

- Interests from Andorran bank accounts: €10,000

- Dividends from Andorran company: €100,000
- Dividends from non-Andorran company: €50,000

**Sources of Income Analysis**

| Source of Income | Amount (€) | Taxable/Exempt |
|---|---|---|
| Salary | 100,000 | Taxable |
| Capital gains | 10,000 | Exempt |
| Interests from bank accounts | 10,000 | 3,000 exempt |
| Dividends from an Andorran company | 100,000 | Exempt |
| Dividends from a non-Andorran company | 50,000 | Taxable |

**Applicable Reductions**

| Reductions | Amount (€) |
|---|---|
| Other deductible costs (3% salary, max. €2,500) | 2,500 |
| Personal minimum reduction | 24,000 |
| Personal minimum spouse reduction | 16,000 |
| Descendants (2 sons) reduction | 1,500 |
| **Total** | **44,000** |

**Calculations**

| | |
|---|---|
| Total Income | 270,000 |
| *Less* | |
| Exempt Income | 113,000 |
| **Taxable income** | **157,000** |
| *Less* | |
| Applicable Reductions | 44,000 |
| **Tax base** | **113,000** |
| × Tax Rate | 10.00% |
| **Tax payable amount** | **11,300** |
| **Effective tax rate** | **4.18%** |
| **After Tax Net Income** | **258,700** |

 

## Corporate Income Tax

In principle, corporate income tax is not applied on a territorial basis. Consequently, corporate income tax applies to the income of a resident Andorran legal entity no matter where generated. An entity is considered to be tax resident in Andorra in three fact patterns.

- It is established under Andorran law.
- It has a registered office or maintains co-working space in Andorra.
- Its place of effective management of a business is located in Andorra.

### *General Corporate Tax Regime*

The rate of Corporate Income Tax is 10% of net profits. Collective investment companies enjoy a 0% tax rate under certain circumstances. However, an Andorran company that is part of a multinational group with consolidated revenues of at least €750 million is subject to a 15% tax on profits. This adjustment aligns Andorran tax law with the new global minimum top-up tax under B.E.P.S. 2.0.

### *Reductions in Tax*

The general tax rate is reduced for companies engaged in the international exploitation of intangible property, provided the company maintains a minimum level of economic substance. The bar for meeting the substance requirement is relatively low. It is met if the company has an employee working at least 4 hours per day and an office consisting of twenty square meters.

Dividends or capital gains obtained by Andorran companies from certain local or foreign companies are exempt in order to avoid double taxation when the following three conditions are met:

1. Holds directly or indirectly owns at minimum 5% of the share capital of the foreign company;
2. The shares must be held for more than one year; and
3. If it is a foreign company, has to be subject to income tax imposed at rates analogous to Andorran corporate tax rates. This requirement is considered fulfilled when the invested entity is a nonresident subject, without the possibility of exemption, at a nominal rate equivalent to at least 40%. This condition is considered satisfied when the invested entity is a resident in a country with which Andorra has entered into an agreement to avoid double taxation.

The tax benefit is cut back with effect as of January 1, 2024. A minimum tax of 3% is imposed on the corporate income for all companies generating profits, irrespective of existing deductions and offsets.

### *Withholding Tax on Outbound Dividends and Certain Gains*

No withholding is made on dividends paid to nonresidents.

In comparison, a 10% tax is imposed on capital gains derived by nonresidents from the transfer of shares of an Andorran company. The 10% tax is also imposed on the payment of liquidation distributions to nonresidents at the time an Andorran company is wound-up.

*Special Tax Regime for Holding Companies*

> ***"A special tax regime applies to dividends and gains derived by an Andorran holding company."***

A special tax regime applies to dividends and gains derived by an Andorran holding company. No tax is levied in Andorra on a holding company that receives dividends from, or realizes capital gains related to, a foreign company. The exemption is subject to the following condition: the foreign company must be resident in a country in which corporate tax rate is at least 4% or be resident in a country with which Andorra has signed a D.T.A. (Double Taxation Agreement). An Andorran holding company need not maintain a minimum percentage of the share capital of the foreign corporation in order to benefit from the regime. Similarly, no minimum holding period is required.

Dividends paid from the holding company to Andorran companies or private individuals who are tax resident in Andorra are also exempt.

**Nonresidents Income Tax ("N.R.I.T.")**

Several exempt or zero-rated transactions make Andorra attractive for foreign investors (individuals or companies):

- Dividends and other income derived from participation in net assets are exempt, when paid by tax-resident entities in Andorra or by Andorran collective investment undertakings subject to the Andorran Corporate Tax.
- Capital gains[2] resulting from the transfer or redemption of shares or stakes in collective investment organization are exempt.
- Capital gains resulting from the transfer of shares are exempt when the transferor and certain related parties collectively own not more than 25% of the capital during the twelve months preceding the transfer.

## TRUSTS IN ANDORRA: A LEGAL OVERVIEW

Trusts play a pivotal role in wealth management and succession planning. Originating from English common law, trusts are recognized in various legal systems, particularly in Anglo-Saxon countries. Notably, Andorra lacks an equivalent instrument to the trust and has not signed The Hague Convention of 1985.

A technical announcement of November 25, 2015, explains the treatment of foreign trusts in Andorra. The trust is not recognized in Andorra. Consequently, the settlor is considered to be the owner of the trust's assets when control has not been transferred to the beneficiary. Therefore, the settlor will be subject to P.I.T. on the income generated by the assets, due to transparency of the trust. However, where the trust is irrevocable, both control and possession are viewed to shift to the beneficiary, resulting in the recognition of a capital gain by the settlor. Given the absence of taxes for the beneficiary on donations and inheritance, the transfer of assets from settlor to beneficiary is not subject inheritance tax or gift tax.

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[2] It follows that if a transaction is of a type for which capital gains are not taxed, capital losses incurred from that type of transaction are not deductible.

In the event that an Andorran company is part of a foreign trust, the ultimate beneficiary must be officially disclosed to the Andorran government through an official declaration. This ensures compliance with regulatory requirements and fosters transparency in financial dealings involving trusts within the jurisdiction.

## LEGAL RESIDENCE IN ANDORRA

Understanding the criteria for legal residence in Andorra is crucial for those considering a relocation. There are various ways to obtain legal residence in Andorra.

- **Employment Visa.** This visa requires an employment contract calling for permanent residence in Andorra. More than 183 days annually must be spent in the country. Police oversight ensures compliance with required days of presence. The renewal of residence hinges on meeting both requirements. An initial deposit of €15,000 must be paid. The deposit is refundable upon permanent departure from the country. Persons who carry on certain professions are exempt from the deposit requirement.

- **Self-Employment Visa.** This visa requires the formation of a company in Andorra. More than 183 days annually must be spent in the country. A deposit of €50,000 must be made with the Andorran Financial Regulator ("A.F.A."). The individuals obtaining the visa must serve as the company administrator and own more than 34% of the shares of the company.

- **Investment Visa.** This visa requires a €600,000 investment in Andorran real estate, shares of an Andorran company, or listed financial products in Andorra. Additionally, a deposit of €47,500 must be made with the A.F.A. for the investor and an extra €9,500 must be made for each dependent. An investment visa requires presence in Andorra for a period of only 90 days. This visa is suitable for individuals already retired, managing assets from Andorra, and benefiting from its tax advantages. It is comparable to "golden visa" programs in other European countries.

- **Scientific, Cultural, and Sports Visa.** This visa is equivalent to an O-1 visa in the U.S. applicable to individuals with extraordinary ability or achievement. It is open to any foreign individual with international recognition for talent in science, culture, or sports. It requires a stay in Andorra of a minimum period of 90 days each year. In addition, it requires the acquisition or lease of personal use residential property in Andorra. At least 85% of the individual's talent related services must be performed outside of Andorra. A deposit of €47,500 must be made to the A.F.A. for the individual and an additional deposit of €9,500 must be made for each dependent individual.

- **Professionals with International Operations.** This visa is available for a professional or sole trader establishing a headquarters for operations. At least 85% of the services of the professional or businessperson must be performed outside of Andorra. The visa holder can employ only one person on a regular basis.

### Rights of Mobility to Spain and France for Andorran Residents

While maintaining its autonomy and not being a part of the European Union or the Schengen area, Andorra provides residents with unique mobility rights in Spain and

France under a Mobility Agreement approved in 2020. The practical implications are that individuals arriving from any European state need not undergo any special procedures. A simple passport or ID card is sufficient for entry or exit from Andorra.

## CONCLUSION

Andorra stands out as an exceptionally attractive European destination for living, seamlessly blending natural beauty, a high quality of life, and distinctive advantages. Its strategic proximity to major European cities positions it as an ideal choice for those seeking a quiet lifestyle while still maintaining accessibility to larger urban centers. It is an alternative to more well-known locations due to its favorable tax system, while providing mobility to the rest of Europe.