

ANDORRA

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Last reviewed: **December 11, 2023**

Embassy of Italy in Andorra

The Italian Embassy is not present.
Refer to the Italian Embassy in Madrid (Spain)
First Counsellor: Benedetto Giuntini

Consulate of Italy in Andorra

Andorra La Vella
Cons. Hon. Alberto Rossi
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Diplomatic representations of Andorra in Italy

The embassy of the Principality of Andorra is not present in Italy
Refer to the Italian Embassy in Madrid (Spain)
First Counsellor: Benedetto Giuntini

CORPORATE INCOME TAX	
Resident companies	10% on worldwide income
Non-resident companies (status not defined by Andorra laws)	10% on Andorra source income
WITHHOLDING TAXES	Up to 35%
OTHER TAXES	
VAT	4.5%, 1%, 9.5%, 0%
Stamp tax on services and trading activities	From € 851 to € 935.50
Social security contributions	20% of income (employer: 14.5%; employee: 5.5%)
Tax on transfer of property	4%
REGISTRATION TIMES	3 months
REGISTRATION COSTS	Registration etc.: € 1,000 – 1,500 Professional costs: € 1,750 – 2,000
ADVANCE RULINGS	To be agreed with the Minister of Finance
EXCHANGE CONTROLS	Not applied
BANK SECRECY	Protected by a specific law
LEGAL SYSTEM	Civil Law
BILATERAL TAX AGREEMENTS	Signed with 10 countries TIEAs with 24 countries

1- GENERAL INFORMATION

I- Location

Andorra is an independent European state located in the mountains of the Pyrenees. Its borders are France and Spain. This state has a triangular shape and an area of 468 square kilometers. The territory of Andorra is mainly mountainous with valleys at a height between 1,000 m and 1,700 m above sea level. Andorra has an ideal climate and in winter it offers six ski resorts.

II- Political factors

Andorra is a parliamentary and democratic co-principality because its constitution, approved in a referendum in 1993, recognizes the Princes of Andorra (Bishop of Urgell – Spain - and the French President) as equal heads of state. The unique nature of the Principality guarantees a high degree of political stability. Andorra does not have an army and has declared itself a neutral nation.

The Principality is governed by a General Council made up of 28 members, four per district, elected by a majority every four years. The General Council has legislative functions and appoints the Head of Government. The government is made up of eight ministries. The Municipal Council manages the local administration in each of the seven districts.

Andorra la Vella is the capital of the Principality and the seat of government, parliament and central administration.

III- Legal system

Andorra is a jurisdiction governed by civil law: Roman law, Catalan law and traditional law form the basis of the legal system. There are criminal, civil and administrative jurisdictions, and the Court of Justice has three instances.

The legal system was amended within the system of the new constitution in order to consolidate the independence of the judiciary.

All the urban and agricultural land is privately owned; the rest of the territory is publicly owned.

IV- Language and population

The official language is Catalan, but French and Spanish are in common use, given the close social and economic ties with the two states.

The population of Andorra is around 80,664 people (2022 estimate), about half of whom are foreign nationals.

V- Currency

Andorra has adopted the Euro and there are no exchange controls. Transactions can be made in any internationally quoted currency.

VI- Foreign investments

Andorra is a stable and neutral nation that does not impose any direct taxes. The Principality is a growing commercial and financial center that offers many opportunities for foreign investment in the service and commercial sectors, both of which are very active, if associated with the interests of Andorra.

The purchase of land or real estate is subject to regulation.

Andorra has established a trade agreement and a customs union with the European Union, but has not signed tax agreements with any other country.

Information relating to transactions carried out in Andorra is not disclosed to any foreign tax authority.

VII- Banking and exchange controls

There are five banks with more than 50 branches that handle all types of international deposit, exchange and transactions. Banks are very active and have nominal and numeral current accounts. Deposits can be received in any convertible currency. There is no tax on interest and capital. The banking system is governed by the 1993 finance law and is subject to the control of INAF (*Institut Nacional Andorra de Finances*). Banks and financial agents are required to secrecy about customer information, which can only be released with the written permission of a state judge.

Banks, financial agents and professionals are also required to declare those transactions that can provide evidence of an infringement of the Andorran law relating to money laundering or the Criminal Code of the State.

There are no exchange controls.

VIII- Secrecy

Banking secrecy is protected by a specific law and by the Criminal Code. In 2010, the Principality of Andorra was included by the OECD on the "white list" for having applied international standards on the exchange of tax information.

IX- Communications

The postal system is controlled by the Spanish and French administrations, which issue Andorran postage stamps for foreign correspondence. Postage is free within Andorra. Telephone and fax systems are connected to international networks. Internet and high speed broadband are available.

Andorra can be reached by plane, by train and with a shuttle link to Andorra la Vella. Coaches and taxis operate between districts and also across borders in France and Spain. Car rental is made possible by major international car rental companies. The cost of petrol is the lowest in Europe. Border posts are always open, day and night.

2- ANDORRA COMPANIES AND TRUSTS

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Companies	<p>Andorran companies are regulated by the Companies Act 1983 and the Companies Law 20/2007.</p> <p>They can be registered as:</p> <ul style="list-style-type: none">• <i>societat per accions</i> (SA): capital divided into shares with limited liability;• <i>societat de responsabilitat limitada</i> (SL): shared capital between shareholders with limited liability;• <i>societat colectiva</i> (SRC): shared capital between shareholders with unlimited liability;• <i>societat unipersonal</i> (U): can be both an SA and an SL, with a single shareholder. <p>The shares must always be registered.</p> <p>The shareholders' meeting is the supreme authority of the company. A company is managed by the Board of Directors composed of one or more directors appointed by the shareholders.</p> <p>The functions of general manager or sole director must be held by citizens or residents of Andorra. A foreigner can only be appointed chairman of the Board of Directors.</p>	<p>All Andorran companies are incorporated by notarial deed before a public notary in Andorra.</p>	<p>All Andorran companies are incorporated by notarial deed before a public notary in Andorra. The act of incorporation is registered in the register of companies in the Ministry of Commerce.</p> <p>The Government must first approve foreign participation in the company after examining a draft of the articles of the statute.</p>

I- Features

Companies in Andorra are regulated by the *Companies Act 1983* and the Companies Law 20/2007. The main features are:

1. The capital is fixed in euro
2. Companies may be incorporated as:
 - *societat per accions* (SA): capital divided into shares with limited responsibility
 - *societat de responsabilitat limitada* (SL): capital shared between partners with limited responsibility
 - *societat colectiva* (SRC): capital shared between partners with unlimited responsibility
 - *societat unipersonal* (U): either SL or SA, formed by one shareholder
3. The activity of the company must be defined
4. The company name is protected by registration
5. Two-thirds of the capital must be owned by Andorran citizens, with the exception of public or social interest companies in which the Government can authorize greater foreign participation. Since October 2008, the Foreign Investment Law No. 2/2008 allows foreigners to own 100% of companies in 200 specific sectors.

II- Incorporation

All Andorran companies are incorporated by notarial deed before a public notary in Andorra. The act of incorporation is registered thus in the register of companies in the Ministry of Commerce.

As a prerequisite to incorporation, a draft of the articles of association must be submitted to the Government for approval.

When the companies are registered in the register of companies, they can operate in Andorra or internationally. The incorporation procedure usually takes 60 days. The cost of incorporation is practically the same for all types of companies and the annual cost of annual management will vary depending on the extent of services provided by the management company.

III- Share capital

Capitalisation

The legal requirements of capitalisation of Andorran companies are:

- (i) *societat per accions* (SA) — minimum capital is €60,000
- (ii) *societat de responsabilitat limitada* (SL) — minimum capital is €3,000
- (iii) *societat colectiva* (SRC) — no established minimum capital
- (iv) *societat unipersonal* (U) — may be formed as an SL or SA.

There are no requirements in Andorra for debt/equity ratios. This facility is largely used in order to receive substantial foreign investments.

Increase and reduction of capital

The capital may be increased by a decision of the shareholders.

The reduction of capital of Andorran companies may be done with the same requirements as the incorporation, with authorisation of the Government, notarial deed and registration in the register of companies.

Andorran companies can be dissolved by resolution of the shareholders and following the procedure for liquidation and extinction.

Companies can only acquire a maximum of 10% share capital to amortise them, subject to a decision of the shareholders, and more than 10% in certain circumstances allowed for in the Companies Law 20/2007.

IV- Shares and shareholders

Shares must always be in registered form. Rights and values attaching to shares of the same series must be equal. A company may not create shares which carry two votes. The creation of shares of Andorran companies (eg common, preferred) is determined by the articles of incorporation. The shareholders have the right to participate in the distribution of profits, the right to participate in the distribution of assets in case of liquidation, the right to vote in the general meetings of shareholders and preferred subscription in the case of an increase of share capital. The majority of a company's capital must be owned by Andorran citizens, Spanish, French or Portuguese nationals with at least 10 years' residency in Andorra, or nationals of other countries with at least 20 years' residency in Andorra. If a company is engaged in certain activities (eg radio, audiovisual production, artistic creation, textile production, sale through internet, etc) no resident capital is required.

V- Management

The general meeting of shareholders is the company's supreme authority. An Andorran company is managed by a board of directors consisting of one or more directors who are appointed by the shareholders. The powers of the board of directors are defined by the articles of incorporation.

Shareholders can participate in the management proportionally to their share participation.

VI- Local presence

The functions of general manager or sole director must be exercised by an Andorran citizen or resident (a Spanish, French or Portuguese national with at least 10 years' residency or a national of another country with at least 20 years' residency). A foreigner may be appointed as chairman of the board of directors.

VII- Accounting and audit requirements

Andorran law requires directors to keep proper books and prepare financial statements at the end of the company's year, and to submit such financial statements to the shareholders for approval. Financial statements are required to be filed for all companies. Audit requirements also apply for companies meeting two of the three following requirements in a two-year period:

- more than € 3.6 million in assets
- annual turnover higher than € 6 million
- more than 25 employees.

VIII- Trusts

Andorra has no specific legislation for trusts.

IX- Other special entities of Andorra

Partnerships

It is possible to establish civil companies in Andorra of two or more persons in order to incorporate a partnership with unlimited liability reflected in a private contract or notarial deed.

Cooperatives

From 13 March 2015, it is possible to establish a cooperative in Andorra. A cooperative is considered to be a legal entity and can be formed by a minimum of two or three persons, depending on the type of cooperative.

Financial entities

The Financial System Law 1993, in addition to governing banks, also governs:

1. mortgage lending entities
2. finance companies
3. leasing companies
4. factoring companies
5. portfolio management companies
6. investment companies
7. mutual investment funds
8. general holding companies, and
9. companies undertaking currency exchange as their primary activity.

Other entities

Other entities which may be incorporated in Andorra include:

- **Sole traders:** citizens and residents of more than 20 years (except for Spanish, French or Portuguese nationals with residence of 10 years) may carry on business in Andorra as sole traders.
- **Branches of foreign corporations:** foreign companies may establish branches in Andorra (Companies Law 20/2007).

3- TAXATION SYSTEM

I- Introduction

Until 2011, no direct taxes or income taxes were applied to individuals or legal entities resident in Andorra.

II- Resident entities

A 10% rate applies on the worldwide income of Andorran companies.

Before 17 May 2018, an 80% exemption was available to Andorran companies engaged in international trading of goods or intangible assets. Transitional rules applied until 31 December 2020 to companies that applied to be subject to the regime before 1 July 2017.

III- Tax returns

Andorran companies are required to file annual corporation tax returns. A prepayment, amounting to 50% of the previous year's tax liability, must be paid by 30 September each year. The annual tax return must be filed 30 days after 6 months from the close of the financial year. Non-residents with a PE in Andorra are required to use the same forms used for resident companies for corporation tax. Non-residents without a PE in Andorra are required to file quarterly returns along with supporting documentation in the month following each quarter.

IV- Taxes on capital

There are no capital taxes in Andorra.

Capital gains by non-residents are taxed at a flat rate of 10%. From 1 January 2015, other capital gains by resident individuals are generally subject to individual income tax.

V- Withholding taxes

On 1 January 2016, the EU Directive 2014/107 entered into force, which entails the application of the withholding tax on interest paid to individuals resident in the EU, with the related

exchange of information between EU member states - including Andorra, starting from September 2017.

Under the previous Directive, banks and financial institutions applied a withholding tax to the savings income of personal accounts of non-residents in the EU states, including Andorra, at the following rates:

- 20% from 1 July 2008 to 30 June 2011
- 35% from 1 July 2011 to 31 December 2015.

VI- Other taxes

There are no inheritance or gift taxes for residents in Andorra.

Import duties

They are imposed on goods imported into Andorra under the customs union with the countries of the EU, allowing free circulation of goods under the same customs duty as other goods coming from a third country. There are no export duties.

VAT

It was introduced in Andorra on 1 January 2013. The standard rate for the commercial supply of all goods and services is 4.5% for Andorran businesses. There is a 1% rate for food, non-alcoholic drinks, books and other publications, and some private educational services. Certain social services (such as hospitals, childcare and public education) are zero-rated. The rate for banking and financial services is 9.5%.

There is a voluntary registration regime available to foreign businesses. A simplified voluntary registration system is available to local businesses with an annual turnover not exceeding €100,000.

VAT replaced a number of Andorra's previous taxes, such as the indirect taxes on goods (IMI), professional activities and services (ISI), internal production (IPI) and commercial activities (IAC), and the utilities tax.

Municipal taxes

Rates vary according to the industry sector, number of employees and area of realty occupied. The amounts are not substantial.

Registry charge

A registry charge at the following determined amounts is levied on commercial and service activities when incorporating a company:

- limited companies (SL): € 851
- companies limited by shares (SA): € 935.50.

Social security tax

It is paid at a minimum rate of 22% of salaries (15.5% payable by the employer and 6.5% by the employee).

Real estate transfer tax (ITP)

A 4% tax is levied on the transfer of real estate properties.

Real estate capital gains tax

A tax is levied on the profit made on real estate transfers. The tax rate depends on the time the owner has held the property prior to its sale (it varies from 15% to 1%). A 0% tax is levied when the property has been owned for more than 10 years.

Income tax

Income tax at the rate of 10% is imposed on individuals earning in excess of €40,000 per year from 1 January 2015. A 5% rate applies for income above €24,000 and up to €40,000. The first €24,000 of income is exempt. Before 1 January 2015, Andorra did not impose any tax on the employment income of individuals.

VII- Dividends: Andorra shareholders and companies

Dividends received by one Andorran company from another are not subject to any tax. Dividends paid to non-residents are not subject to Andorran tax.

VIII- Tax incentives

Hotel developments can obtain credits from banking institutions at a reduced rate.

Newly incorporated resident SMEs (businesses with a turnover of less than €100,000 per annum) pay corporation tax at a rate of 5% for the first 3 years of operation, regardless of the standard rate (10% from 1 January 2013).

IX- Advance rulings

From 1st January 2015, taxpayers are able to request advance rulings from the Ministry of Finance in relation to tax matters.

X- Anti-avoidance

Anti-avoidance legislation was approved on 22 August 2002.

XI- Taxation of foreign income

Foreign source income

Resident corporations incorporated under Andorran law are subject to corporation tax on their worldwide income (see point II above).

Foreign source capital gains

Foreign source capital gains are subject to corporation tax.

Foreign tax credits/double tax relief

Foreign tax credits/double tax relief are available under certain conditions in Andorra.

Transfer of income to persons abroad

Withholding tax rates on payments made to non-residents (whether in Andorra or not at the time of the payment) are:

- (1) Dividends — 0%
- (2) Interest — 0%
- (3) Royalties — 5%.

Withholding tax on interest paid to EU resident individuals

On January 1, 2016, the EU Directive 2014/107 entered into force, which entails the application of the withholding tax on interest paid to individuals resident in the EU, with the related exchange of information between EU member states - including Andorra - starting from 30 September 2017.

Under the previous Directive, banks and financial institutions applied a withholding tax to the savings income of the personal accounts of non-residents in the EU states, including Andorra, at the following rates:

- 20% from 1 July 2008 to 30 June 2011;
- 35% from 1 July 2011 to 31 December 2015.

4- NON-RESIDENTS AND NON-RESIDENT OFFSHORE COMPANIES

The status of non-residents and non-resident offshore companies has not traditionally been legally defined under Andorran law.

A 10% rate of tax is imposed on non-resident entities in respect of Andorra source income.

Income subject to taxation in the hands of non-resident entities under the legislation includes profit, passive income such as royalties, dividends, interest, gains from immovable property, director's remuneration and pension income.

5- BILATERAL TAX AGREEMENTS

Andorra has signed tax treaties with a small number of countries

	<i>Dividends</i> %	<i>Interests</i> %	<i>Royalties</i> %
<i>Non-treaty countries</i>	0	0	5
<i>Treaty countries</i>			
Cyprus	0	0	0
France	0	0	0/5
Hungary	0	0	5
Liechtenstein	0	0	0
Luxembourg	0	0	0
Malta	0	0	0
Portugal	0	0	5
San Marino	0	0	5
Spain	0	0	5
United Arab Emirates	0	0	0

Andorra has signed TIEAs with the following countries: Argentina, Australia, Austria, Belgium, Czech Republic, Korea, Denmark, Finland, France, Germany, Greenland, Iceland, Faroe Islands, Italy, Liechtenstein, the Netherlands, Monaco, Norway, Poland, Portugal, San Marino, Spain, Sweden and Switzerland.