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THE INFLUENCE OF THE TAX SYSTEM ON THE LOCATION OF HOLDING COMPANIES IN SPAIN

1. INTRODUCTION

The Spanish Corporation Tax Law (SCTL) incorporates a tax regime on holding companies¹ in the mid-1990s, called “*Régimen de Entidades de Tenencia de Valores Extranjeros (ETVE)*”. With this regime, Spain is placed at the same level as countries such as Holland, Luxembourg or Switzerland, which already had tax benefits for holding companies in their legislation.

The introduction of the special regime of holding companies in the corporate tax had a double purpose, on the one hand, the attraction, towards Spain, of foreign direct investment and, on the other hand, to adapt the Spanish direct taxation system to the growing process of internationalization of the economy, as well as opening the Spanish economy to cross-border capital flows².

Until then, investors, both Spanish and foreign, located their business structures in countries with tax regimes favorable to the distribution of dividends and capital gains, and in countries with a wide network of agreements to avoid double taxation.

The study of the taxation of holding companies is generally incardinated with the taxation of two countries: Holland³ and Luxembourg⁴. The tax system for attracting holding companies in the Netherlands and Luxembourg is based on participation exemption, which, according to Fuster, (2000, p.101) consists, in general terms, in the exemption of taxation of dividends from foreign subsidiaries⁵ and of capital gains obtained by the transfer of shares in the subsidiaries and their subsequent distribution to their partners.

After more than twenty years of the incorporation of the special regime of holding companies in the Spanish Corporate Tax Law, this article analyzes whether taxation is a determining factor when locating a holding company in Spain. To achieve the objective we have used an

¹ Holding companies can be defined as an intermediate company with independent legal capability, whose purpose is to hold and manage shares of other national or foreign companies that can receive certain tax benefits if they fulfill the requirements established to that effect by the national tax laws. Cárdenas Cárdenas, G. and García Gamez, S. (2015).

² Statement of motives of Spanish Tax Corporate Law (STCL) 43/1995, (B.O.E. 310, December 28, 1995).

³ Historically, the Netherlands has been considered one of the most favorable territories for the implantation of holding companies in Europe (Luelmo, E., 2001, p.91). The Netherlands has been the location chosen by many multinational groups, not only because of a long experience and a positive attitude of the Tax Administration, but also because of the ease of obtaining tax rulling (Udal, N., and Cinnamon, A., 2004).

⁴ Luxembourg has a reputation for being a successful country in establishing a holding company for having a stable fiscal environment and more recently for having introduced a regime of tax consolidation and exemption tax rules for withholding tax on payment of royalties (Mongan, J., and Johal, A., 2005).

⁵ In Spanish “filial”, in French “filiale”, in German “Tochter-gesellschaft”.

econometric model of analysis of time series with cointegration where the endogenous variable used was the number of holding companies under ETVE Spanish regime and the exogenous variables were divided into two groups: fiscal and non-fiscal variables. The exogenous fiscal variables are: Effective Tax Rate and Double Taxation Agreements, while the non-fiscal exogenous variables are: Government Effectiveness and Business Freedom.

The paper is divided into five sections, first, a brief analysis of the tax benefits that the Spanish tax system grants to holding companies, as well as the requirements that the national tax legislation requires to be entitled to them. Secondly, a theoretical framework is developed that serves as the basis for all the research, followed by the methodology used in this research. Fourth, variables, data and the econometric model are presented and analyzed. Fifth, the results obtained together with the conclusions.

2. SPECIAL TAX REGIME OF HOLDING COMPANIES (ENTIDADES DE TENENCIA DE VALORES EXTRANJEROS (ETVE)) IN THE SPANISH CORPORATE TAX LAW

Currently, the regime of holding companies is regulated in articles 107 and 108 of the Spanish Corporate Tax Law 27/2014⁶ (SCTL).

However, before analyzing this tax regime in detail, we must examine the tax treatment that the Law grants to income from a foreign source.

The Spanish Corporate Tax Law applies two methods: the exemption method and the tax credit method to eliminate or mitigate international double taxation.

The exemption method is contemplated in articles 21 and 22 SCTL. The first article refers to the elimination of double taxation on dividends and income derived from the transfer of own funds of non-resident entities⁷ (double economic taxation), as long as they meet certain requirements, which are: a) That the percentage of participation, directly or indirectly, in the capital or in the equity of the entity is at least 5 percent or that the acquisition value of the participation is greater than 20 million euros⁸; b) That the corresponding participation has been held uninterruptedly during the year prior to the day on which the benefit is due or, failing that,

⁶ BOE. 288, November 28, 2014.

⁷ Article 21.5 SCTL lists certain cases in which the exemption derived from the transfer of shares does not operate: a) in the transfer of shares in a patrimonial entity; b) in the transfer of shares in a Spanish or European Economic Interest Grouping; and c) in the transfer of shares in an entity in which at least 15% of their income is subject to international tax transparency.

⁸ The amount of 20 million euros refers to the direct investment of the holding company in its non-resident subsidiary and, in no case, to the total of the investment made in relation to subsidiaries of the second or higher level.

that it is subsequently maintained for the time necessary to complete it, and c) That the subsidiary has been subject and not exempt by a foreign tax of an identical or analogous⁹ nature to this tax at a nominal rate of at least 10 percent in the year in which the benefits distributed or in which they participate, regardless of the application of some type of exemption, bonus, reduction or deduction on those. This requirement will be considered fulfilled when the subsidiary is resident in a country with which Spain has signed an agreement to avoid international double taxation, which is applicable to it and which contains an information exchange clause. On the contrary, in no case shall this requirement be deemed fulfilled when the subsidiary is resident in a country or territory qualified as a tax haven, except that it resides in a Member State of the European Union and the taxpayer certifies that its constitution and operation is based on reasons economic activities and that carries out economic activities.

Article 22 LIS provides for the exemption of positive income obtained abroad through a permanent establishment (juridical double taxation), or the transfer of a permanent establishment or cessation of its activity, as long as it meet the requirement that it has been subject and not exempt to a tax of an identical or analogous nature to the Spanish corporation tax, with a nominal rate of at least 10 percent.

However, the tax credit method to eliminate the international juridical double taxation indicates that the lower of the following two amounts can be deducted from the full amount:

- a) The amount effectively paid abroad due to the tax of an identical or similar nature to the Spanish corporation tax.
- b) The amount of the gross tax payable that in Spain would correspond to pay for these rents if they had been obtained in Spanish territory.

It is important to note that, since the 2014 reform, the amount of the tax paid abroad that is not subject to deduction in the gross tax payable due to the legal limit indicated above (for example: when the foreign effective rate is greater than the Spanish) will be considered a fiscally deductible expense, as long as the taxable income comes from carrying out economic activities abroad.

On the other hand, the tax credit method is contemplated in article 32 SCTL with the deduction to avoid international economic double taxation on dividends. This article establishes that the

⁹ It should be understood as identical or similar to the Spanish corporation tax any tax whose taxable event is the income obtained by the subsidiary, even when the tax is partial. This requirement is also considered fulfilled, when the subsidiary is taxed through tax figures, although they do not directly use as a reference the measurement of income, the object of the tax is, among others, for example: income or any other element of income. On the other hand, if the taxable event is different from income, as could be a tax levied on the product, the requirement of article 21.b SCTL would be considered not fulfilled, since the requirement is the taxation of income from the subsidiary.

Spanish company may deduct the tax effectively paid by the non-resident company with respect to the benefits charged to which the dividends are paid, as long as this amount is included in the tax base of the taxpayer. For the application of this deduction it will be necessary to comply with the following requirements:

- a) That the direct or indirect participation in the capital of the non-resident entity is at least 5 percent, or that the acquisition value of the participation exceeds 20 million euros.
- b) That the participation has been held uninterruptedly during the year prior to the day on which the benefit is distributed or, failing that, that it is maintained for as long as it is necessary to complete one year.

In these cases, the deduction falls on the effective tax paid abroad and not on the income as in the case of the exemption contemplated in articles 21 and 22 *ejusdem*. Finally, note that, it is the taxpayer who chooses one method or another, however, the exemption is incompatible with the deduction to avoid international double taxation.

In relation to domestic income, since the 2014 reform, the deduction is eliminated to avoid double internal taxation, and only the application of the exemption method for domestic income is established. This exemption is contemplated jointly with the exemption of Article 21 SCTL and applies the same requirements (Exemption on dividends and income derived from the transfer of the own funds of resident and non-resident entities in Spanish territory). These tax treatments that avoid or mitigate the juridical and economic double taxation, international and domestic, can be applied by any type of company that complies with the legal requirements, including holding companies.

However, the tax regime of holding companies contemplates specific tax benefits for this type of companies with foreign subsidiaries.

The tax regime of holding companies is applied to entities¹⁰ whose main object includes the management and administration of investment in non-resident entities in Spanish territory,

¹⁰ The Spanish Corporate Tax Law does not define the taxpayers. The law designates "entities" as the taxpayer of the holding company regime, as long as they have as their main objective the holding and management of the shares of other non-resident companies. In Spain, therefore, it should be understood that all holding companies, subject to corporate tax, except for the Foundations or Savings Banks, for not having their share capital represented in registered securities, a requirement demanded by the legislator.

Likewise, they are excluded from the application of the holding company regime, as established by the law itself: the entities subject to the special regimes of economic interest groups, Spanish and European, and temporary joint ventures (UTE). And, finally, they are also excluded, the patrimonial entities, understanding by these, those that do not carry out an economic activity, that is, when more than half of their assets are constituted by values or are not affected by an economic activity.

which would be the holding companies, both pure and mixed¹¹, as long as they have organization of material and human resources in Spain, therefore, are excluded so-called paper companies or letterbox or patrimonial societies.

Holding companies must comply with the following legal requirements to obtain the benefits of the tax regime: a) the holding and management of shares in non-resident entities in Spanish territory as a significant corporate purpose, but not exclusive; b) the existence of material and human resources in the holding company; c) the holding company must inform the Ministry of Finance of its decision to submit to the tax regime of holding companies.

The Corporate Tax Law in its article 107 establishes that, the corporate purpose of the holding entities "will include" the activity of management and administration of investments of non-resident entities. Therefore, it can be affirmed that the social object of these entities is not of an exclusive nature, but may contain several activities. In this way, we are facing the tax regulation of a mixed holding company.

The second requirement is that the holding company must manage its corporate purpose through the corresponding organization of material and human resources. However, the law does not delimit conceptually what should be understood by material and human resources. Even the doctrine has indicated that it is an indeterminate legal concept and constitutes one of the "most problematic requirements due to its lack of definition" (Martín Jiménez, 2004, p.73).

From the beginning, in 1995, of the regime of holding companies, the legislator demands the existence of material and human resources so that a society can claim this status. But since then, little or almost nothing has been regulated in this regard. However, the Tax Administration, at the request of the interested parties, has delimited the concept of material and human resources through binding consultations.

The Tax Administration responds in the consultation of November 10, 1995 to the question about how the requirement of material and human resources should be understood in the international tax transparency regime. The Tax Administration considers this requirement fulfilled when the company can prove the existence of a board of directors or an administrator whose activity relates, totally or partially, to the direction or management of the shares.

Martín Jiménez (1996, page 980) considers that the previous consultation reduces to a minimum the requirement of material and human resources, and also that the residence in Spain of the members of the board of directors responsible for managing the shares is not required.

¹¹ If the holding company only manages a set of shares of its subsidiaries would be a pure holding company, but if on the contrary, they also exercise a commercial or industrial activity, regardless of what type of commercial or industrial activity developed this would be a mixed holding company.

Subsequently, the binding consultation of December 27, 1996 conditioned the meaning of the requirement of "material and human resources" to the fulfillment of an objective such as "the correct administration of the participations". The requirement is fulfilled if all the material and human resources necessary for the "correct" administration of the participations are available, but it is still not determined what means should be used to fulfill that objective. It is at this time when part of the doctrine understood that an office and a full-time employee were being required as material and human resources.

In each of the consultations of the years 2001¹², 2003¹³, 2016¹⁴, the Tax Administration maintains as a position for compliance with the requirement of material and human resources the exercise, by the holding company, of a minimum activity for the purpose of managing and administering the participations

Minimal activity is understood as all those collateral activities derived from the fulfillment of the corporate purpose, for example, the formal obligations of accounting and taxation. Likewise, it reiterates the administrative doctrine, the requirement, of at least one administrator or a member of the board of directors that is in charge of the management and direction of the participations.

Finally, the consultations establish that this requirement would be understood as unfulfilled if the management of the participations were carried out entirely by external resources, such as by law firms.

The above is a clear example of the absence of specific regulation on the special regime of holding companies, insofar as it has been "regulated" through binding consultations of the Spanish Tax Administration and not through the enactment of laws

It is essential to emphasize this lack of clarity in the regulation of the requirements that a company must meet for inclusion in the special tax regime of holding companies, which generates significant legal uncertainty that diverts foreign investment towards clearer and more reliable regimes.

The third requirement is the company's obligation to inform the Ministry of Finance of its decision to submit to the special fiscal regime of holding companies. Even though the Law itself refers the communication to a regulatory development, the Corporate Tax Regulation, in the only article dedicated to this issue, does not establish any formal requirement that the communication must comply.

¹² Binding Consultation, Dirección General de Tributos V-0026-01, May 7, 2001.

¹³ Binding Consultation, Dirección General de Tributos V-0022-03, February 25, 2003.

¹⁴ Binding Consultation, Dirección General de Tributos V-0464-16, February 8, 2016.

Consequently, there are no established legal requirements to make the communication. It is understood that the communication will take effect as long as the decision of the company to submit of the special regime of holding companies is on it.

What this regulatory article does make clear is that the special fiscal regime of holding companies is optional and its concession, in no case, depends on the Tax Administration. Once the decision has been communicated, by the entity, of submitting to the tax regime, the concession is produced automatically.

The taxpayer does not have to prove, in the communication, that he meets the requirements to be subject to the regime of holding companies. However, the Administration, at any time, may require proof of this.

Once the decision is communicated to the Ministry of Finance, the regime will be applied to the tax period that ends after the communication and to the successive ones that conclude before the resignation of the regime is notified to the Ministry of Finance; therefore, it is immediate application.

Now, in relation to the tax benefits established in this special regime we must indicate, first, that the tax treatment of the Regime of holding companies is focused in the subject (partner) that receives the benefits derived from exempt income by application of the articles 21 and 22 SCTL.

It is important to point out that the holding companies in Spain do not benefit from any reduction in the legal tax rate or special rates. In Spain, holding companies, subject to the special regime of holding companies, are subject to the general corporate tax rate.

Article 108 SCTL develops the treatment that should be given to the benefits distributed to shareholder with charge to the exempt income by application of the article 21 and 22 SCTL, and it points out three cases: if it is a legal entity partner subject to the Corporate Tax Law or to the Non-Resident Income Tax Law with permanent establishment; partner subject to the Law on Personal Income Tax, and third, a natural person or legal entity not resident in Spanish territory without a permanent establishment.

In the first case, the law says that "the benefits received will have the corresponding treatment in accordance with this law", which means that the shareholder, by application of article 108 a) SCTL, is entitled to the exemption of the article 21 *ejusdem*, previously explained or to a deduction to avoid international double taxation.

In addition, the regime of holding companies requires entities to identify the amount of exempt income and taxes paid abroad corresponding to these, in order to facilitate their taxation in residence. The foregoing is written in a memorandum that the company must present in each

year, identifying the income that has been included in the taxable base and, consequently, have been taxed and the income that has been exempt by application of article 21 of the Law of Corporate Tax, regardless of whether these income is distributed or not to their shareholders.

In the event that the shareholder is a natural person resident in Spanish territory, the distributed benefit, for example: dividends, by application of article 108.b) of the Corporation Tax Law, shall be subject to taxation through its integration in the taxable base of the saving of the tax on the income of natural persons.

The third and last case, article 108.c), establishes that if a company distributes benefits with charge to exempt income by application of articles 21 or 22 whose beneficiary is an entity or natural person not resident in Spanish territory, it will be understood that such benefit has not been obtained in national territory. This outgoing benefit will be exempt from withholding tax, so there will be no withholding tax, which, in Spain, is currently 19% on dividends. However, it is a sine qua non requirement that the beneficiary of the distributed dividends is not resident in a tax haven.

It is in this section that we find a capital difference in relation to the exemption of outgoing dividends. If the dividends are distributed by a company that does not benefit from the special tax regime of holding companies, they will only be exempt at source in two cases: the first one, if a Spanish subsidiary distributes dividends to a parent company or a permanent establishment of this resident in the European Union, dividends will be exempt from taxation in Spain, in accordance with Article 14.1.h) of the Law on Non-Resident Income Tax, provided that they meet certain requirements and that the company parent-subsidiary test a relationship between the company and the full identification of the ultimate and effective beneficiary of the returns, and in the second case, when there is an agreement to avoid double taxation that exempts withholding tax. In any case, if there is a convention to avoid double taxation, the withholding tax will be in accordance with the provisions of the agreement.

We can affirm that the added value of the special regime of holding companies is based on the fiscal benefit contemplated in article 108 c) SCTL. We can affirm that the added value of the special regime of holding companies is based on the fiscal benefit contemplated in article 108 c) SCTL. The exemption of tax at the source of the outgoing dividends charged to the exempt income by application of articles 21 and 22 received by the non-resident shareholders in Spanish territory.

3. THEORETICAL FRAMEWORK

In the year 2015, the article “The influence of the tax system on the location of holding companies in Switzerland”¹⁵ was published in the Competitiveness Review. In this article, the influence of taxation on the decision to locate a holding company in Switzerland was analyzed. Now that the Spanish holding regime is consolidated, thanks to more than twenty years of application in our tax legislation, we consider it important to carry out an analysis of the influence of taxation in the decision to locate a holding company in our country.

As already mentioned in the article published in 2015, the study of the taxation of holding companies is a topic related more to law firms and / or tax advisors than to academic research, and it is for this reason, that there are few empirical studies on this topic. Hence, the importance of the research developed in this paper.

In the article published in 2015 we point to several authors who highlight certain fiscal variables that are taken into account when deciding where to establish a holding company, these authors are: Romano (1999); Udal and Cinnamon (2004); Mongal and Johal (2005); Eynatten (2007) and Eicke (2009). These authors point out various fiscal variables that can be summarized in the following table:

Table 1. Summary table of the fiscal variables to be taken into account when establishing a holding company in a country.

Fiscal Variables
<ul style="list-style-type: none"> • Participation exemption on dividends and capital gains • No withholding tax on dividends and profits from liquidation • Unlimited deduction on financial expenses goodwill, and depreciation per value of the participation • Limited anti-avoidance legislation • Liberal thin-capitalization rules • No regulation of international fiscal transparency • Excellent network of double taxation agreements • No tax on capital • No tax on stock transfer • Low corporate tax rate • Low tax burden on workers • Absence of CFC rules • No exit taxes

Source: Developed by the authors from information provided in reference books

¹⁵ Cárdenas Cárdenas, G, and García Gamez, S (2015) “The influence of the tax system on the location of holding companies in Switzerland”. Competitiveness Review, Vol. 25, Nº 2, pp. 218-237.

Within the factors indicated by the authors, there are variables as diverse as absence of CFC rules, even as the non-existence of exit taxes, but all converge in the same sense as reducing the tax base of the holding company, legally, this means, making use of the tax benefits that each jurisdiction establishes in its laws. Among the most important fiscal variables, we have: a low corporate tax rate or the possibility of deduction of financial expenses without limit, also an excellent network of agreement to avoid the double taxation that makes transfers of dividends or income generated in various countries are made with the lowest possible tax burden.

As we also noted, in our article published in 2015, even though our field of study is taxation as a variable of attraction of holding companies, we consider it appropriate to highlight some variables regarding direct foreign investment¹⁶

The studies that analyze the variables that attract foreign direct investment can be divided into two types: on the one hand the theoretical studies, and on the other hand the practical studies. The first one are based on analysis of descriptive theories, while the second, develop econometric models in order to test the theories established in the first studies.

In the following table, we show two theoretical studies (Dunning and Lundan, 2008 and World Investment Report by UNCTAD, 2011) in which attraction variables of foreign direct investment are indicated. In these studies, we find, for example: as location advantages: tax incentives o favorable environment for doing business, or government policies on imports, exports and competition; also in the World Investment Report, there are variables such as: ease of doing business, fiscal policy and various economic variables.

¹⁶ To deepen about these variables and these authors such as: Dunning (1988, 2000, 2008); Hymer (1960); Vernon (1966), the Uppsala school of Johanson and Vahlne (1990, 2009), and so on, we refer you to our article: Cárdenas Cárdenas, G, and García Gamez, S (2015).

Table 2. Table summarizing the variables that influence the location of foreign direct investment (theoretical studies).

Dunning & Lundan (2008)	World Investment Report UNCTAD (2011)
<ul style="list-style-type: none"> OWNERSHIP ADVANTAGES <ul style="list-style-type: none"> Regulation of intellectual property Levels of technology Levels of knowledge of business management techniques Investment in R&D INTERNALIZATION ADVANTAGES <ul style="list-style-type: none"> No price discrimination Market control Low transaction cost LOCATION ADVANTAGES <ul style="list-style-type: none"> Fiscal incentives Subsidies Cost of labor Government policies on imports, exports and competition Favorable environment for "doing business" Local incentives Aid to foreign investors 	<ul style="list-style-type: none"> POLITICAL FRAMEWORK <ul style="list-style-type: none"> Economic, political and social stability Competition policy Market policy Fiscal policy EASE OF DOING BUSINESS <ul style="list-style-type: none"> Cost reduction for doing business ECONOMIC VARIABLE <ul style="list-style-type: none"> Infrastructure Size of market and per capita income Market growth Access to global and regional market Local consumer preferences Access to raw material Access to low-cost labor Access to qualified labor Cost and productivity of resources/assets Other costs (transportation, communication, energy)

Source: Developed by the authors from information provided in reference books

However, within the empirical works that include the variable taxation as a factor of attraction of foreign direct investment, can be mentioned, as the most important: Hartman (1984); Slemrod (1990); Devereux and Griffith (1998); Desai, Foley and Hines (2004); Bénassy-Quéré, Fontagné and Lahrière-Révil (2005); Razin, Rubinstein and Sadka (2005); Bellak and Leibrecht (2009).

Table 3. Empirical studies in which the tax system as a variable is included as a factor of attraction of the foreign direct investment

Hartman (1984)	Slemrod (1989)	Devereux and Griffith (1998)	Desai et al. (2004)	Bénassy-Quéré et al. (2005)	Razin et al. (2005)	Bellak and Leibrecht (2009)
<ul style="list-style-type: none"> This article states that there is a weak relationship between taxation and foreign direct investment, because the benefits of multinationals are subject to taxation, both in the country of origin and in the destination country of the investment. 	<ul style="list-style-type: none"> This paper investigates how the tax system of the U.S. and the capital exporting country combine to affect the flow of foreign direct investment (FOI) into the U.S., using aggregate data, it corroborates earlier work suggesting that the U.S. effective tax rate does influence the amount of FOI financed by transfers of funds, but not the amount financed by retained earnings 	<ul style="list-style-type: none"> This article analyzes the influence of taxation on the location of US multinationals in Europe. The effective average tax rate plays a role in the choice between locations, but not in the choice of whether to locate production in Europe compared with one of the outside options 	<ul style="list-style-type: none"> The study focuses on US multinationals and concludes that taxation influences negatively in the attraction of foreign direct investment 	<ul style="list-style-type: none"> The article reaches the same conclusion as Desai et al., but the study focuses on member countries of the OECD 	<ul style="list-style-type: none"> This study concludes that the taxation of the country receiving the investment influences the intensity of the flow of investment 	<ul style="list-style-type: none"> This paper analyzes the tax variable on the attraction of foreign direct investment in Eastern European countries. The results indicate that tax-lowering strategies of Central and East European Countries governments seem to have an important impact on foreign firms location decisions.

Source: Developed by the authors from information provided in reference books

Finally, note that in recent years has been increased theoretical and empirical research that relates taxation with other factors such as economic growth, competitiveness or institutional quality. Studies like the one carried out by Brîndusa and Strapuc (2015) in which it is analyzed the impact of tax system on global competitiveness on the level of european union member states; Fernández Rodríguez and García de la Iglesia (2004) that analyze the influence of taxation and accounting in R & D investment decisions; Grau-Ruiz (2013) links not only taxation, but also corporate social responsibility with foreign direct investment in developing countries; Pérez Garrido (2012) delimits not only the effect of taxation on the attraction capacity of foreign direct investment, but also includes the factor of institutional quality, obtaining results that confirm that countries that have achieved an acceptable quality of their institutions and have a relatively high level of taxation, the introduction of tax cuts can be used to attract a greater proportion of foreign direct investment.

4. METHODOLOGY

In order to demonstrate the impact of taxation in the location of holding companies in Spain, an econometric model was estimated following the methodology of analysis of time series with cointegration. The cointegration analysis guarantees the establishment of long-term stable relationships in a model of time series free of spurious correlations. The concept of cointegration was introduced by Granger (1981), and developed extensively by Engle and Granger (1987) and Phillips and Ouliaris (1990), among other authors.

When a series presents one or several stochastic tendencies, it is called non-stationary or integrated. In this case, the values of the variable, in a moment of time, constitute the accumulation of disturbances that it has experienced throughout history; On the contrary, when a series is stationary, in statistical terms, it can be affirmed that the effect of any disturbance on it is transitory. Therefore, if a stationary relationship between a set of integrated variables of the same order is detected when applying the cointegration analysis, it will be possible to formulate a static model of time series. In this static model of time series, the variables would be expressed in levels, which would be free of spurious relations. This fact guarantees the existence of equilibrium relations between these variables in the long term; It should be noted that the notion of stable equilibrium between economic variables implies that any deviation that exists between them can not be very strong or be extended in an unlimited way, Pérez, C. (2006). In the contribution made by Granger and Newbold (1974), the problematic derived from the possible existence of spurious regressions in the application of time series econometrics is developed.

In this research, we use the methodology of analysis of time series with cointegration because all the variables (exogenous and endogenous) are non-stationary over time and integrated in order 1. In addition, after obtaining the residuals it was possible to verify that the series it was stationary, which guarantees the equilibrium relationship.

Following the approach of the econometric literature, the process in this investigation begins with the analysis of the order of integrability of the different variables, both endogenous and exogenous.

Second, we estimate the models in which the relationship between fiscal variables and the number of holding companies can be verified through the ordinary least squares (OLS) method. Finally, to verify the existence of cointegration between the variables of the model, and therefore corroborate that the residuals of the estimation are stationary, it is carried out on these, on the one hand, the unit root contrast and, on the other, the test of Durbin-Watson (RCDM).

5. VARIABLES, DATA AND ESTIMATION OF ECONOMETRIC MODEL

The sample selected in the specification of the model constitutes a temporary series with an annual frequency (from 1999 to 2014), bringing together a total number of 16 observations. Although the ETVE tax system was incorporated into the tax legislation in 1995, the disaggregated data of the number of companies subject to this tax regime do not begin until 1999, and the last data ends in 2014.

In the specification of the model, statistical information from different sources has been used. Within the Spanish databases are: Memories of the Spanish Tax Agency; Annual report of the Ministry of Finance on corporate tax: analysis of statistical data for the year. We also used international databases, such as: the Heritage Foundation and World Bank.

The variables were selected according to the analysis of the theoretical framework and the consultation of the empirical literature. We have used variables of a fiscal nature to demonstrate their influence on the location of holding companies in Spain, but we have also taken into account variables of another nature, such as economic or governance, because we understand that there are other factors that may be influential for locate a holding company in a specific geographic space.

In view of the above, Table 4 shows the variables used to analyze the incidence of taxation in the decision to locate a holding company in Spain, as well as the other control variables considered equally relevant to explain the establishment of this type of companies.

Table 4. Definition of the variables used in the econometric model

	Type	Acronym	Definition	Source of statistical information
Variables that measure the influence of taxation	Endogenous	ETVE	Number of holding companies in Spain	Memories of the Spanish Tax Agency ¹⁷
	Exogenous	TEFECTIVO	Effective rate of corporation tax. In percentage	Annual report of the Ministry of Finance on corporate tax: analysis of statistical data for the year ¹⁸
	Exogenous	CDI	Number of agreements to avoid international double taxation	Memories of the Spanish Tax Agency ¹⁹
Control variables	Exogenous	BFREEDOM	The business freedom component measures the extent to which the regulatory and infrastructure environments constrain the efficient operation of businesses	Index of Economic Freedom. The Heritage Foundation ²⁰
	Exogenous	GEFFECTIVENESS	Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies	The Worldwide Governance Indicators. WorldBank ²¹

Source: Developed by the authors

5.1. Analysis of the variables

5.1.1. Endogenous variable:

A. Number of holding companies in Spain

In order to have sufficient, current and homogeneous statistical information in methodological terms and to solve the potential problems of small samples, we have used the Annual Report of the Tax Administration on the number of holding companies under the ETVE tax regime.

It is important to mention that, the number of holding companies located in Spain subject to the tax regime of ETVE, has presented during the period of analysis (with the exception of the year

¹⁷

http://www.hacienda.gob.es/Documentacion/Publico/Inspgral/Memorias/Memoria%20Tributaria%202016/MAT_Tomo_1_acc.pdf

¹⁸<http://www.minhap.gob.es/es-ES/Estadistica%20e%20Informes/Impuestos/Paginas/IMPUESTO%20SOBRE%20SOCIEDADES.aspx>

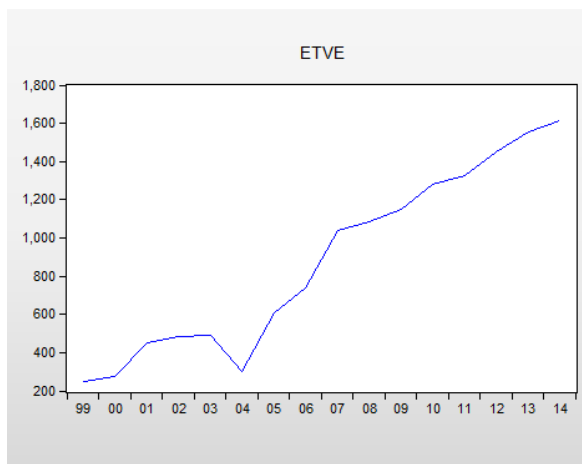
¹⁹<http://www.minhap.gob.es/es-ES/Estadistica%20e%20Informes/Informes%20y%20Memorias/Paginas/Memorias%20de%20la%20Administracion%20Tributaria.aspx>

²⁰ <http://www.heritage.org/index/ranking>

²¹ <https://info.worldbank.org/governance/wgi/#doc-methodology>

2004 where they fall 39.43%) a steadily growing trend, estimating an annual expansion average close to 17% between 1999 and 2014, a trend that is currently maintained. Thus, at the close of this investigation, it can be affirmed that in Spain there were 1,613 holding companies under the ETVE tax regime for 2014.

Figure 1. Evolution of the number of holding companies under the ETVE regime (1999-2014)



Source: Developed by the authors from the Memories of the Spanish Tax Agency

We observed in 2004 a sharp fall in the number of holding companies under the ETVE regime, that we understand is due to the process of modification that this regime suffered with the enactment of Law 6/2000, of December 13, which approves measures urgent tax incentives for family savings and small and medium enterprises that introduced articles 21 and 22 to the Law on Corporate Tax. These articles regulated the exemption of dividends and capital gains derived from foreign entities to their resident parent companies. The main impact of this change in the holding company regime was that, in order to obtain the exemption established in those articles, it was no longer necessary to be subject to the ETVE special regime, but any company that fulfilled the requirements established there could have the tax benefit of the exemption of dividends and foreign capital gains, so that is why we understand a lighter increase in the years following 2000, until the fall of 2004.

However, we can observe that in 2005 the number of holding companies under the ETVE regime increases considerably to be positioned in 607 companies, which implies 103.7% compared to the previous year. This increase in the number of holding companies under the ETVE regime for the year 2005, we consider as result of fiscal and non-fiscal factors.

Although, with the Corporate Tax Law of 2004, the ETVE regime is not substantially modified, companies also have the benefits of exemption of dividends and foreign capital gains (Article

20 and 21, even though it is not necessary to be under the ETVE regime) continue to maintain the ETVE regime's own benefit. This tax benefit is the exemption of outbound dividends, that is, exemption of dividends based on exempt income for the application of articles 20 and 21 SCTL and distributed to non-resident Spanish shareholders. Thus, we see that even though the rate of change in the total number of holding companies under ETVE regime (the rate of change from 2000 to 2006 around 7.5%) does not change substantially, in 2005 we see a significant increase in companies subject to the ETVE regime, due to this fiscal factor and others such as the signing of 7 other agreements to avoid double taxation.

However, in 2004 we also have factors of a non-fiscal nature, which we consider to have an impact on this increase in the number of ETVE companies, such as: the amendments that the Corporate Tax Law of 1995 has been gathered, in a only text, which brings legal certainty to the Spanish tax system; a change of government takes place and a new legislature begins that brings political stability; likewise, the regime has been in existence for more than 10 years since its enactment and is consolidated as a holding tax regime at a European level. Therefore, as can be seen in Figure 1 since 2005 the number of companies subject to the regime of holding companies has not stopped growing.

5.1.2. Exogenous variables:

A. Fiscal variables:

A.1. Effective rate of corporation tax (TEFECTIVO):

The effective tax rate has been defined as the quotient between the tax payable and the tax base. It is important to note that the effective tax rate takes into account deductions for domestic double taxation of dividends and capital gains. These deductions constitute technical deductions that seek to avoid or mitigate double taxation on income and considerably reduce the nominal rate of corporation tax. That is why the effective rate is considered more realistic than the nominal rate, on the tax burden of the company. Likewise, another element that affects the variable "effective rate of corporation tax" corresponds to the extra-accounting adjustments for exemptions that allows avoiding double international taxation.

A.2. Agreements to avoid international double taxation (CDI):

Note that when we talk about taxation as an influential factor in the location of holding companies, we must take into account fiscal aspects of a different nature, such as the existence of a network of agreements to avoid double taxation, or certain tax benefits established in the Law such as: tax holidays, exemptions or deductions of income from domestic and international sources, transfer prices or thin capitalization rules.

The data on the number of agreements to avoid international double taxation signed by Spain refer to the agreements on taxation of income and property that are in force. It should be noted, that the signing of 60 new double taxation agreements during the last fifteen years has significantly reduced the problems of international double taxation, generating an economic benefit in two directions. On the one hand, the import of capital, since the signing of agreements to avoid double taxation attracts foreign investment and, on the other hand, promotes the internationalization of the Spanish company. It is important to highlight that Spain is the country in the European area that presents the broadest network of agreements with Latin America to avoid international double taxation, which leads to use our country as a base for holding companies with investment purposes and commercial relations with countries of Latin America

B. Other variables different from taxation considered relevant by the theoretical framework in the location of holding companies

B.1. Business Freedom (BFREEDOM):

Taking into account the theoretical framework, we see that there are other factors besides taxation that can significantly influence the attraction of holding companies to a jurisdiction. These other factors are the ease and freedom to do business.

According the methodology use by The Heritage Foundation to elaborate the Index of Economic Freedom, the business freedom component measures the extent to which the regulatory and infrastructure environments constrain the efficient operation of businesses. The quantitative score is derived from an array of factors that affect the ease of starting, operating, and closing a business.

The business freedom score for each country is a number between 0 and 100, with 100 indicating the freest business environment. The score is based on 13 sub-factors, all of which are weighted equally, using data from the World Bank's Doing Business report:

- Starting a business—procedures (number);
- Starting a business—time (days);
- Starting a business—cost (% of income per capita);
- Starting a business—minimum capital (% of income per capita);
- Obtaining a license—procedures (number);²²
- Obtaining a license—time (days);
- Obtaining a license—cost (% of income per capita);

²² Obtaining a license indicates the necessary procedures, time, and cost involved in getting construction permits.

- Closing a business—time (years);
- Closing a business—cost (% of estate);
- Closing a business—recovery rate (cents on the dollar);
- Getting electricity—procedures (number);
- Getting electricity—time (days); and
- Getting electricity—cost (% of income per capita).²³

Each of these sub-factors is converted to a scale of 0 to 100, after which the average of the converted values is computed. The result represents the country's business freedom score in comparison to the business freedom scores of other countries.

Each sub-factor is converted to a scale of 0 to 100 using the following equation:

$$\text{Sub-factor Score}_i = 50 \times (\text{Sub-factor}_{\text{average}} / \text{Sub-factor}_i)$$

Which is based on the ratio of the country data for each sub-factor relative to the world average, multiplied by 50. For example, on average worldwide, it takes 20 days to start a business. Paraguay's 35 days to start a business is a sub-factor value that is worse than the average, resulting in a ratio of 0.57. That ratio multiplied by 50 equals the final sub-factor score of 28.6.

B.2. Perception of the degree of efficiency of the government (GEFFECTIVENESS):

Another non-fiscal variable included in the research is perception of the degree of efficiency of the government, since we consider that the factors that are part of this variable are fundamental when deciding where to establish a company, even if it is non-productive, such as holding companies. These aggregates factors are, among others: quality of bureaucracy, institutional effectiveness, infrastructure, policy instability, quality of public administration, trust in government²⁴.

Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Government Effectiveness is one of six dimensions²⁵ of governance included in The Worldwide Governance Indicators report. The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of

²³ Infrastructure services such as roads, water, and power supplies are critical to an economy's overall business climate. Among the key infrastructures, according to a recent World Bank study, securing electricity connection is often considered the most important aspect of facilitating private business. In an effort to measure business freedom more comprehensively, the 2016 Index adopted three sub-factors related to "getting electricity."

²⁴ To expand on this variable, it can be seen: Cardenas et al. (2018)

²⁵ The other five dimensions are: Voice and Accountability; Political Stability and Absence of Violence; Regulatory Quality; Rule of Law and Control of Corruption.

enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

Each of six aggregate WGI measures are constructed by averaging together data from the underlying sources that correspond to the concept of governance being measured. This is done in the three steps: Step 1: Assigning data from individual sources to the six aggregate indicators. Step 2: Preliminary rescaling of the individual source data to run from 0 to 1. Step 3: Using an Unobserved Components Model (UCM) to construct a weighted average of the individual indicators for each source. The composite measures of governance generated by the UCM are in units of a standard normal distribution, with mean zero, standard deviation of one, and running from approximately -2.5 to 2.5, with higher values corresponding to better governance.²⁶

5.2. Statistical analysis of the variables

5.2.1. Primary analysis of time series:

To determine whether the time series included in the present analysis were stationary, the descriptive statistics were calculated in two sampling sub-periods of 8 years each: the first was established from 1999 to 2006 and the second from 2007 to 2014.

Table 5. Descriptive Statistics

Variables	1999-2006		2007-2014		1999-2014
	Mean	Stand. Deviation	Mean	Stand. Deviation	Q-stat
ETVE	450,000	169,831	1.311,750	213,796	68,105
TEFECTIVO	23,548	0,717	18,575	0,757	71,828
CDI	48,875	10,246	75,250	5,285	66,836
BFREEDOM	71,087	3,076	78,075	1,834	49,891
GEFFECTIVENESS	1,587	0,360	1,038	0,119	51,733

Source: Developed by the authors

As we can see, in most of the variables present in Table 5, both the mean and the deviation presented very different values in both periods, a fact that denotes the possible absence of stationarity in the series.

Likewise, the correlograms of the series for the period 1999-2014 were analyzed. Thus, taking into account the significance corresponding to the Q statistic of Box and Pierce (Table 5), the

²⁶ To expand on the methodology see: Kaufmann, D; Kraay, A, and Mastruzzi, M. (2010).

null hypothesis that all coefficients of the autocorrelation function are simultaneously equal to zero was rejected (for all confidence levels).

Additionally, unit root tests were used in order to verify the integration order of the variables. Specifically, the ADF test was applied, commonly referred to as the augmented Dickey-Fuller test, both in levels and in the first differences (Table 6). Finally, taking into account the level of statistical significance corresponding to the τ statistic it was concluded that all the series analyzed were integrated of order 1.

Table 6. Test of unit roots. Statistical test of Dickey-Fuller Augmented (ADF)

Variables	Levels	P-value	First Differences	P-value
ETVE	-0,024528	0,9392	-4,262617	0,0063***
TEFECTIVO	-2,795078	0,2255	-2,358204	0,0225**
CDI	-1,587852	0,4622	-4,598882	0,0138**
BFREEDOM	-2,619438	0,2781	-3,506436	0,0019***
GEFFECTIVENESS	-2,564712	0,1261	-5,604141	0,0029***

Source: Developed by the authors

Notes: *, ** and *** indicate parameters that are significantly different from zero at 10, 5 and 1 percent, respectively

As mentioned in the methodology section, in order to fulfill the objective of this article and to contrast the hypotheses formulated in relation to the influence of the taxation of the holding companies in Spain, a model of time series was carried out using the technique derived from the analysis of cointegration. In model 1 and 2 we show the different specifications of the time series models:

Model 1

$$ETVE_t = \beta_1 + \beta_2 TEFECTIVO_t + \beta_3 CDI_t + \varepsilon_t \quad (1)$$

Model 2

$$ETVE_t = \beta_1 + \beta_2 TEFECTIVO_t + \beta_3 CDI_t + \beta_4 BFREEDOM_t + \beta_5 GEFFECTIVENESS_t + \varepsilon_t \quad (2)$$

Where:

$ETVE_t$ = Number of holding companies in Spain

$TEFECTIVO_t$ = Effective Rate of Corporation Tax

CDI_t = Number of Agreement to avoid the Double Taxation

$BFREEDOM_t$ = Business Freedom

$GEFFECTIVENES_t$ = Perception of the degree of efficiency of the government

The variable ε_t , represents the random perturbation corresponding to period t , with zero mean, constant variance and absence of autocorrelation.

6. FINDINGS AND CONCLUSIONS

In columns 1 and 2 of Table 7 we find the value of the different coefficients of interest, accompanied by the level of individual statistical significance, obtained from the estimation of equation 1 and 2. In the same Table 7 is included statistics R^2 , $\overline{R^2}$, y el D-W, to measure the reliability of each of the estimates, as well as the degree of autocorrelation of the residues respectively.

Table 7. Findings

Variables	Estimated equations		
	(1) ²⁷	(2) ²⁸	(3) ²⁹
CONSTANTS	1.533,057 (0,0379)**	-	-
TEFECTIVO	-81,53594 (0,0023)***	-84,12472 (0,0000)***	-0,471797 (0,0000)***
CDI	17,16120 (0,0004)***	21,27186 (0,0000)***	0,667995 (0,0000)***
BFREEDOM		11,64705 (0,0055)***	0,187207 (0,0221)**
GEFFECTIVENESS		352,7663 (0,0001)***	0,333633 (0,0001)***
D2000		126,1711 (0,0326)**	0,258194 (0,0423)**
D2004		-111,1690 (0,0711)*	-
Statistics			
R^2	0,956176	0,993957	0,991821
R^2 Ajustado	0,949433	0,990936	0,988847
F	141,8194 (0,0000)***	-	-
Durbin-Watson	1,049771	1,876774	1,803749

Source: Developed by the authors based on the results of the estimates

Notes: *, ** and *** indicate parameters that are significantly different from zero at 10, 5 and 1 percent, respectively

²⁷ The equation estimated correspond with model 1

²⁸ The equation estimated correspond with model 2

²⁹ Each of the variables was introduced standardized to determine the real importance of the fiscal variables in the explanation of the location of the holding companies in Spain.

In equation No. 1 it should be noted that all the coefficients associated with fiscal variables presented the expected signs (Tables 7 and 8), according to what is expressed in the theoretical framework. With respect to statistical analysis, both fiscal variable (TEFECTIVO & CDI) were statistically different from zero at all levels of confidence.

Table 8. Interpretation of the signs

Variable	Signs
Effective rate of corporation tax (TEFECTIVO)	Negative: An increase in the effective rate of corporate tax reduces the number of holding companies in Spain. The effective rate is a variable directly related to the location of the holding companies, since this represents the tax burden that the company must assume, even after deducting the international double taxation.
Agreements to avoid international double taxation (CDI)	Positive: An increase in double taxation agreements increases the number of holding companies in Spain. This variable is fundamental in the location of holding companies, because depending on the network of agreements to avoid double taxation that a country has signed, companies with foreign subsidiaries have low or no taxation at the residence, or its case, it avoids or attenuates the double international taxation.

Source: Developed by the authors based on the results of the estimate

With regard to the reliability of the model, both the coefficient of determination (R^2 , \overline{R}^2 adjusted) with a value greater than 94%, and the contrast F denote that the model estimated in the first equation (where only the fiscal variables are included) explain the changes experienced by the variable location of holding companies in Spain, during the period 1999-2014.

However, when taking into account the value of the Durbin-Watson (DW) statistic, it should be noted that the value obtained in equation No. 1 is in the doubt zone, indicating a possible non-compliance with the hypothesis of no autocorrelation in the residuals, which could be attributed in part to the exclusion of relevant variables in the model.

To complete the specification and control the effect of the fiscal variables, the variable business freedom (BFREEDOM) and the variable perception of the effectiveness of the Public Sector (GEFFECTIVENESS) were introduced in equation No. 2.

Following the methodology enunciated in section 4 to verify that the residues from the previous estimate (equation No. 2) are stationary, it was carried out on these, both the unitary roots test in levels, and the Durbin-Watson test (DWRC) on the cointegration equation. In this sense, considering the level of statistical significance from the Phillips Perron test, it was possible to verify that the series of the residuals was I (0). Additionally, the DWRC test obtained a value $d = 1,876777$ clearly superior to the critical values of 0,511; 0.386 and 0.322 at 1%, at 5% and at

10% confidence level respectively³⁰, with which it can be concluded that the series included in this model cointegrate (Table 9).

Since the results of equation 2 constitute a long-term equilibrium equation, each of the estimate coefficients can be interpreted as long-term parameters, which allows for a structural analysis of the model.

In this sense, when introducing the control variables in the equation, the fiscal variables analyzed presented, again, the expected signs. In relation to the statistical contrasts and the reliability of the model according to the results of the model presented in table 7, it was observed that all the parameters were statistically different from zero and the coefficients of determination (R^2 , $\overline{R^2}$ adjusted) had a value above 99%.

Observing the residues it was possible to verify the existence of atypical values in the years 2002 and 2004. Several contrasts were carried out in which it was possible to verify that the parameters of the model did not show a change of structure during the analysis period, including the corresponding ones fictitious variables (dummy) in the model³¹. Finally, we applied the normality, heteroscedasticity and autocorrelation tests on the residues, finding that they behaved like a white noise (Table 9).

Table 9. Diagnostic test on residuals (Equation N° 2)

Test	Statistic	Probability
Phillips Perron	-4,232181	0,0060***
Jarque-Bera	1,678819	0,4319
D-W	1,876777	-
Heteroscedasticity Test Glesjser (F-statistic)	1,060040	0,4496
Serial Correlation LM (1) Test (F-statistic): LM (2) Test (F-statistic):	0,01094 2,00948	0,9190 0,1963

Source: Developed by authors based on the results obtained in equation N° 2

Notes: *, ** and *** indicate parameters that are significantly different from zero at 10, 5 and 1 percent, respectively

In column 3 of Table 7 a third equation was estimated in which each of the variables was introduced standardized to determine the real importance of the fiscal variables in the

³⁰ These critical values have been determined based on 10,000 simulations according to what is expressed in Gujarati, D. (2005).

³¹ It should be noted that in the section corresponding to the description of the variable endogenous, the reasons for the fall in the location of holding companies in Spain during 2004 are explained.

explanation of the location of the holding companies in Spain. Thus, when analyzing the absolute value of each of the coefficients obtained in column 3 of Table 7, it was found that, in order of relevance, the number of agreements to avoid international double taxation is the most relevant factor in the location of the holding companies in Spain. In this regard, based on the structural analysis from equation 2 of Table 7, it can be concluded that for each additional double taxation agreement signed in Spain, the establishment of holding companies is increased by around 21 companies.

The second most important factor (based on the value of the standardized coefficients) was the effective corporate tax rate. Thus, the value of the estimated coefficient of the TEFFECTIVO variable (equation 2 of Table 7) indicates that for each additional point in the effective rate of corporate tax, the number of holding companies in Spain is reduced by around 84 entities.

It should be noted that not only tax factors influence the location of holding companies in Spain, but there are other key elements such as the ease of business freedom and the perception of agents about the effectiveness of the government.

In fact, equation 3 of Table 7 shows that the third variable with the greatest influence on the location of holding companies is a non-fiscal variable: the perception of the efficiency and credibility of the public sector. Each time the level of perception of efficiency and credibility of the public sector (GEFFECTIVENESS) increases one point, the number of holding companies will increase slightly above 350 (conclusion derived from equation 2 of Table 7).

The perception of the degree of efficiency of the public sector is an aggregate variable that brings together important factors to take into account, such as security or legal stability. Thus, a permanent legislative reform generates distrust and legal uncertainty, having as a consequence the reduction of established investors or the non-attraction of new ones. In this sense we must emphasize that the use by the Government of Spain as a formula to legislate the “Decreto-ley”, leads to our country is in a permanent process of tax reform that has harmful consequences for the establishment of companies.

Another factor that generates legal uncertainty, are the indeterminate legal concepts included in the Law of the Corporation Tax that give rise to interpretative differences that end up in the courts. In Spain, in the last decade, there has been a sharp increase in tax claims, including holding companies under ETVE regime.

Finally, in relation to the control variable BFREEDOM, it was found that as the freedom to do business increases, the number of holding companies in Spain also increases. Thus, the freedom to do business involves facilities to establish, develop and dissolve and liquidate a company, from regulatory, administrative, economic points of view; consequently, to greater freedom in

these areas, holding companies respond positively, with an approximate increase of 12 companies for each additional point in this indicator (equation 2 of Table 7).

Therefore, we can conclude that taxation is the predominant factor in the location of holding companies in Spain, followed by institutional variables of a non-fiscal nature such as Government Effectiveness and Business Freedom.

Now, the objective of this paper has a certain scope; scope that is defined by the limitations of the research itself.

First, when studying the Spanish tax system, we have focused exclusively on the common fiscal regime of the State, without going into the analysis of the “*foral*” tax system.

Second, the study of holding companies is carried out from a global perspective of international tax planning leaving aside the analysis of holding companies as instruments for attracting foreign direct investment, due to its complexity, could give way to the development of another research.

Third, even though this article focuses on the study of the tax regime of holding companies, it would be interesting, for future research, to extend the scope of this study to the analysis of foreign direct investment that Spain has received from holding companies under the ETVE regime.

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