

THE SPANISH TAXATION SYSTEM, MAIN PROBLEMS AND REFORM PROPOSALS



Albert Godayol Albareda
Pilar Terricabras Boté

Teacher: RAFAEL DE MADARIAGA

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ABSTRACT

The aim of this work is to gather important information about the Spanish taxation system and the problems that this one presents. This information is usually dispersed because although there are many reform proposals their analysis of the taxation system situation is very brief and concise, because they focus on the problems of each tax that need reform. So the objective of this work is to analyse the Spanish taxation system and understand which problems have and the reason of this problems with an ordered and easy to understand information. To do this we have tried to do a more general view.

This project has different parts in which we will do a general analysis of the Spanish taxation system, we will also compare the Spanish taxation structure with our European neighbours such as Germany, France and Italy during 2005, 2010 and 2014, the years we consider most remarkable in Spanish economy evolution. Hereafter we will analyse the main problems that most economists and experts concur that our taxation system presents. Finally we have focused our project in one of the most important problems that presents our taxation system that is the big rate of non-observed economy and fiscal fraud.

To conclude our project we have analysed the different and the most important reform proposals made by the experts.

KEY WORDS:

Spain, taxation system, problems, EU comparison, fiscal fraud, tax inequality, reform evidence, experts, non-observed economy.

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1. Introduction

The great recession that showed the first effects in 2008 reveal that the Spanish tax system has problems. Those problems had existed since many years, but they were more noticeable when the great recession appeared.

On the one hand, this tax system has a very limited capacity in terms of tax collection compared with other European countries, and this fact supposed that the experienced breakdown in Spanish tax revenues was more evident and pronounced than in the rest of Europe.

On the other hand, as the tax collection is very low, the policy response has been to increase tax rates. This increase has affected unfairly to middle class.

It's obvious that the preservation of the welfare state in any country (Spain) is not possible without a taxation system that should be able to collect enough incomes to found with the public services that must be provided.

For any country seeking economic growth and social welfare, it has always been very important the impact that the actions of the public sector could have. In the case of Spain (that's the country that will be analysed in this project) and of all countries that have given up their monetary sovereignty and monetary policy to the European Central Bank, the fiscal policy is their main economic policy to administrate and lead their economies.

This essay is divided in six clear different parts. First of all we want to show a quick view to the nowadays taxation system. We start with a brief introduction of the main taxes in Spain followed by a description of the tax collection structure and finally a tax collection evolution's from the beginning of the great recession till some years after the onset of the economic crisis.

In the second part of this essay we analyse the evolution of Spanish taxation structure during three main periods: During the housing bubble, during the worst years of the great recession and the subsequent years. It starts comparing the Spanish tax structure weight with other similar countries of the UE (Germany, France and Italy). In order to see the difference between the three analysed main periods we have taken information from 2005, 2010 and 2014.

In the third part of this work we will find and define the most important problems of the Spanish tax system. We have chosen four main problems to be analysed that are the ones we think that had affected more to the tax system. These problems are: the excessive number of tax deductions and exemptions, the lack of willpower to fight against tax fraud, the tax payment inequalities generated by the existence of some special

companies that have a very distinct fiscal treatment (SICAV, SOCIMI, ...) and finally, the large tax fraud that there is in Spain.

As tax fraud is one of the most important problems in our country and it has a high impact on the Spanish tax system, we want to deepen in this problem. This is why in the fourth place of the work we want to focus on the estimation methods to measure it. Then we will compare the Spanish situation with other European countries and we will analyse which are the main factors that drive people to commit tax fraud and the ways that can be used with this purpose.

Finally we will analyse the two most important existing reform proposals in Spain ("*Comisión de expertos del PP*" and FEDEA) and also measures to fight against tax fraud.

In the last part of our work we will describe what the political parties and the economic experts propose in order to reform the Spanish tax system.

To sum up our work we will present the conclusions of our research and our opinion about what we have learned about Spanish tax system. In addition we will see if the objectives and the ideas that we had at the beginning were true or not.

The first objective of this work is to demonstrate that Spain has an inefficient taxation system. This means that its taxation system isn't able to contribute significantly to reduce the public debt and to face the needs of public expenditure. During the housing bubble period has been the only one where Spain has collected the appropriate level to finance the welfare state, because the country presented extraordinary budget surplus.

As a second objective, linked to the first one, we also want to find the main causes of this inefficiency. The main economic experts often say that is a case where there have been periodically some reforms with an important lack of empirical analysis. As we will see later, it's a mistake to think that this is due to the fact that Spain has lower tax rates than the others UE countries. The main problem is that there is a large number of deductions and exemptions that make that contributors pay a very low real tax rate if we compare with the nominal one that they have to pay. This high number of deductions and exemptions (and other fiscal benefits) make bring about an important minimization on the tax base and therefore the total tax revenues.

As we will see in this work, the Spanish fiscal System presents different gaps and that is one of the reasons why there is so much tax evasion and fiscal fraud. This is one of the most important problems that affect the Spanish economy. And, in addition, it's a country where willpower to fight against fiscal fraud is lighter than in other European countries.

That is why we want to analyse how this problems affect to our economy, why it is so important and what the experts advice to do to fight against it.

Finally, our last objective is to analyse and compare the different existing reform proposals by economic experts and political parties to get a more efficient, fair, equal, and progressive tax system. To do this part, we have chosen the two most important proposals existing in Spain. Those are "*Informe de la comisión de expertos para la reforma del Sistema tributario español*"¹ and "FEDEA² proposal reform".

¹ This report has been written by the expert commission in Spain. As they mention, they receive the help of International bodies, Spanish Tax authorities and AEAT ("*Agencia Estatal de Administración Tributaria*"). This report is considered the most important one in Spain.

² FEDEA "*Fundación de Estudios de Economía aplicada*". This foundation was created in 1985 with the clear objective of having a positively impact to the society through investigating on main social and economic issues. After that, they disclose this information to contribute on the Spanish progression.

2. Spanish taxation system

Nowadays all the European countries manage a large variety of taxes that respond to a logic order and that are integrated in each taxation system. This system is not only constituted for the corresponding taxation structure, it's also constituted by a group of principles that lead this structure, the operational resources of the Tax Administration and a range of procedures for the fiscal administration.

Before explaining the Spanish taxation system we want to find which are the guiding principles for a successful tax system.

a. Guiding principles of taxation systems

A good taxation system should contain a taxation structure endowed with this four main principles: efficiency, equity, simplicity and flexibility.

- Efficiency principle: The objective is that taxes don't affect or distort the behaviour of the agents.
- Equity: Modern fiscal systems are based on the principle of "ability to pay". According to this principle, taxes will be paid depending on the economic capacity of the contributor (income, wealth, consumption-expenditure...).
- Simplicity: There is a desire of a coherent taxation system and simple administration. In this way, to achieve this simplicity, a country has to look for a taxation system with the just number of broad-based taxes, accomplishing this way what is expected.
- Flexibility: This principle is referred to the fact that the group of taxes need to be able to adapt to possible changing circumstances of economy. This means to collect more on growth periods to reduce the impact of recession years. In such a way, the taxes that possess the taxation system have to be sufficient to finance public spending respecting the basic principles exposed above.

But if we analyse the report named "*Comisión de expertos para la reforma del Sistema Tributario Español*" of February 2014, we find two different modality of taxation principles. To do this, this present us a distinction between "purpose principles" and "organization principles".

Talking about **purpose principles**, those have the objective to find the plurality of taxes accomplishing the ethic and economic finalities clearly marked by the Tax Agency.

From the ethic point of view, the taxation system should take care of:

- Get a just distribution of public sector costs.
- Search for generality in terms of peoples' taxation and the different magnitudes involved.
- Reach the fiscal equality between those members that integrate a group that is the same, both for personal circumstances and fiscal magnitudes.

In connection to economic purposes, the current taxes in Spain should:

- Look for efficiency with a resource allocation without disturbances or substantial modifications.
- Achieve the neutrality principle that is obtained when personal decisions of individuals, as the ones related with work and save are not affected.
- Ensure that public sector has sufficient strength to look for financial stability. It's essential the absence of big variations in variables like production, income or employment.

About **organization principles**, these pretend to achieve that the taxation system structure possess:

- The necessary sufficiency to be able to collect the necessary money to cover the financial necessities of public spending.
- The systematization of figures that take part of this fiscal unit, necessary with the proposal to avoid possible overlap between those ones.
- Simplicity when the organization of every tax is done and in the taxation system in general.
- Continuity of regulatory standards.
- Transparency to eliminate the doubts that contributors can have related to their rights and duties.

b. Structure

The main source of revenues of the Spanish public sector are taxes. The LGT³ defines the taxes as the public revenues required by the Spanish public Administration as a result of the fact that the contributor carry out an act (that is called taxable event) and the law forces to make the pertinent payment.

³ "Ley General Tributaria"

Tributes are divided into three groups or categories: Taxes, fees and special contributions.

Taxes: Those are not directly linked to some permission as fees or special contributions. This means that there is not a direct relation between what contributor pays and receives. Imposts are collected by the public sector to encumber a manifestation of economic capacity of the contributor. By this way, contributor pay taxes and receive a set of public services.

These are divided into direct taxes and indirect taxes:

- Direct taxes: Are the taxes that depend directly on the economic capacity of the contributor. This means that relapse into heritage and the incomes that have been obtained in a period. Direct taxes are the following:
 - Personal Income Tax (PIT)⁴: Levies on incomes obtained in Spain for people living in the Spanish territory.
 - Tax on personal income for not residents⁵: This impost levies into the income obtained in Spain for people that is living outside the Spanish territory.
 - Corporate Income Tax (CIT)⁶: This tax levies into the benefits that are obtained through the activity of the companies (It's applied to the net benefit).
 - Inheritance and donations tax⁷: This is paid when a natural person receive a heritage or other goods without any compensation paid for a realized work or service.
 - Wealth tax⁸

- Indirect taxes: These are those imposts that levy on a purchase or consumption of certain goods or services. There is no distinction of who is the person that realizes the consumption, nor their wealth or incomes. So the main difference with direct taxes is that indirect taxes doesn't depend on the economic capacity of the contributor.

Are therefore indirect taxes:

⁴ (PIT). In Spain "IRPF. Impuesto sobre la Renta de las Personas Físicas"

⁵ In Spain "IRNR. Impuesto sobre la Renta de Personas No Residentes".

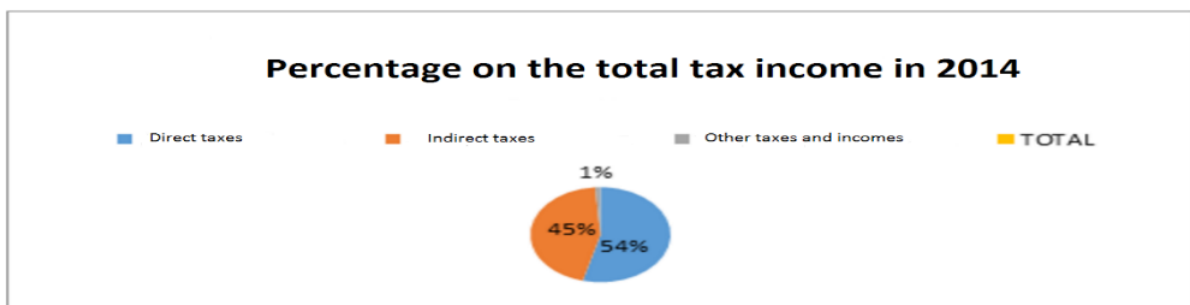
⁶ (CIT). In Spain "IS. Impuesto de Sociedades".

⁷ In Spain "Impuesto sobre Sucesiones y Donaciones".

⁸ In Spain "Impuesto sobre el Patrimonio".

- Value added tax (VAT)⁹.
 - Property transfer and Certified Legal Documents tax ¹⁰.
- Fees: LGT defines fees as the taxation, which taxable event consists on the privative use or special utilization public domain or the realization of activities in public law regulation that affect or benefit particularly to the contributor. An example of fee would be the use of public sidewalk for people that have terraces.
- Special contributions: as LGT defines, special contributions are those fees which taxable event is the revenue or the increased value for the contributor due to the realisation of public works. Some special contributions example can be when streets are asphalted or lighted. As people's houses who live there increase value, the owners of these houses have to pay a special contribution.

Down below we are going to see for the last year that we have data (2014) the contribution to the total tax revenues that direct taxes, indirect taxes and other taxes have (in percentages):



Graph 1. Percentage on the total tax income in 2014

Source: own calculations with data from Tax Agency.

http://www.minhap.gob.es/Documentacion/Publico/Tributos/Estadisticas/Recaudacion/2011/Analisis_estadistico_recaudacion_2011.pdf

Direct taxes are the most important taxes of the Spanish taxation system, representing more than the 50% of the total public revenues. On 2014 direct taxes represented an amount of 94.614 million euros. If we calculate the presence of direct taxes on total revenue, which were 174.987 million euros, we can find that direct taxes have a weight of 54,10% on the total.

⁹ (VAT). In Spain "IVA. Impuesto Sobre el Valor Añadido".

¹⁰ In Spain "ITP y AJD. Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados".

Indirect taxes had a total revenue of 78.233 million euros on 2014. They represent more than the 44% of the total tax revenues.

So as we can see in the graphic, taxes and other revenues represent 1.20% on the total tax incomes.

On the other hand, Spanish Public Administration is organized on three basic levels of territorial administrations. Each one develops its functions and are divided according to what is stated in the Constitution and the laws. These three levels are: State's General Administration, regional administrations and local authorities.

- General Administration of the state: Is the one that manages all the national territory of those services and functions covered by the Spanish constitution. The State's General Administration is composed by a variety of organs.
- Regional Administration: Once constituted State's autonomy, each autonomous community has its own executive.
- Local Administration: The local administration is composed by local entities. It is an administrative autonomy and not a political one because it lacks of legislative power. Each municipality has its own local entity with its own government (mayor).

c. General view of the taxation system

As we will see later, the most important taxation figures (and also the ones in which we can appreciate more disadvantages comparing Spain to other European countries) are the Personal Income Tax, the Corporate Income Tax and the Value Added Tax.

In the following table we can see the maximum rates for 2014 of this taxes:

UPDATED MAXIMUM RATES IN EUROZONE(%)			
	Personal Income Tax (PIT)	Value Added Tax (VAT)	Corporate Income Tax (CIT)
1	Belgium (53,7)	Finland (24)	France (36,1)
2	Portugal (53)	Greece (23)	Malta (35)
3	Spain (52)	Ireland (23)	Belgium (34)
4	Netherlands (52)	Portugal (23)	Portugal (31,5)
5	Finland (51,5)	Italy (22)	Italy (31,4)
6	France(50,2)	Belgium (21)	Spain (30)
7	Austria (50)	Spain (21)	Germany (29,8)
8	Slovenia (50)	Latvia (21)	Luxembourg (29,2)
9	Germany (47,5)	Netherlands (21)	Greece (26)
10	Italy (47,3)	Eurozone average (20,5)	Eurozone average (25,3)
11	Greece (46)	Austria (20)	Austria (25)
12	Luxembourg (43,6)	Slovakia (20)	Netherlands (25)
13	Eurozone Average (43,4)	Slovenia (20)	Finland (24,5)
14	Ireland (41)	Estonia (20)	Slovakia (23)
15	Cyprus (38,5)	France (19,6)	Estonia (21)
16	Malta (35)	Germany (19)	Slovenia (17)
17	Slovakia (25)	Cyprus (18)	Latvia (15)
18	Latvia (24)	Malta (18)	Ireland (12,5)
19	Estonia (21)	Luxembourg (15)	Cyprus (10)

Chart 1. Updated maximum rates in Eurozone (%)

Source: own calculation with data from Eurostat

<http://ec.europa.eu/eurostat/data/database>

As this chart shows, Spain is the third country with the highest maximum rate on Personal Income Tax. With a rate of 52%, this was located only under Belgium (53.7%) and Portugal (53%).

But what is more outstanding is that this rate was very far from the average of the Eurozone, which was 43.4%. These figures imply a difference of 8.6 percentage points between Spain and the average.

It is important to note that the Personal Income Tax rates suffered in 2012 a large percentage increase of its rate. This increasing was made as a temporal collecting measure to face the great recession affection in Spain. It is known that this measure was not effective to achieve the objective because Spain collected only 800 million euros that were very far of the forecast of 5.000 million euros. Due to this reason, government maintained this measure also for 2013 and 2014.

Focusing now on VAT, the figure is not as outstanding as in the case of PIT, but the maximum rate for VAT in Spain was 21%, that was a little bit higher than the Eurozone average percentage that was a 20.5%. This is the same percentage as Belgium, Latvia, and the Netherlands.

Finally, the nominal Corporate Income Tax rate in 2014 was 30% whereas the average taxation in Eurozone for CIT was 25.3%. We can see that Spanish tax rate is very far from the Eurozone average, but the most shocking fact of this comparison is that this rate is even higher than CIT in Ireland (12,5%) and Cyprus (10%).

Once we have seen that Spain has higher taxation rates than most part of countries in the European Union we will see if the tax revenues are concordant to this fact. To do this we have done a chart that shows (for the same countries that we have analysed the maximum taxation rates) the tax revenues as a percentage of GDP for each one:

SPANISH TAX REVENUES (2014, % OF GDP)		
1	Finland	54,4
2	France	51,8
3	Belgium	51
4	Austria	49,2
5	Italy	47,7
6	Netherlands	46,4
7	Eurozone average	46,2
8	Germany	44,8
9	Greece	44,6
10	Slovenia	44,2
11	Luxembourg	43,7
12	Portugal	40,9
13	Malta	40
14	Estonia	39,2
15	Cyprus	39
16	Spain	37,1
17	Latvia	35,1
18	Ireland	34,5
19	Slovakia	33,2

Chart 2. Spanish tax revenues 2014 (% of GDP)
Source: own calculation with data from Eurostat
<http://ec.europa.eu/eurostat/data/database>

As we can observe in the chart above, if we analyse the tax revenues in percentage of GDP of Spain respect the other countries of the Eurozone, Spain is in 16th out of 19 countries (only in better position than Slovakia, Ireland and Latvia).

The average of Eurozone for the 2014 exercise was 46.2% of GDP, whereas Spain tax revenues represent only a 37.1% of GDP (even though being one of the countries with higher maximum tax rates).

It has to be said that these percentage differences can have the answer on the effects of the great recession that has caused the loss of positions respect other countries, but

the truth is that in good periods Spanish tax authorities have always collected less than the rest of the Eurozone countries.

This fact is called “the Spanish paradox”. As is easy to imagine, receives this name because of all Eurozone countries, Spain has a taxation rates in terms of PIT, VAT and CIT that represent to be ones of the highest in Europe. In contrast, has a percentage of tax revenues in terms of GDP really low.

I. Personal Income Tax (PIT)

Personal Income Tax is a direct and personal tax levied on the income obtained by individuals during a tax period. The tax is subjective because it cares about the personal and family circumstances of the contributor. This tax is partially transferred to the Autonomous Communities.

The object of the tax is the contributor income. This means the total income, gains and losses, and income allocations that are dictated by law, regardless of where it occurred and the residence of the payer.

This tax is required in all the Spanish territory, following the principle of territoriality.

The income is formed by:

- Earned income
- Capital returns (derived from assets that are not related to business or professional activities)
- Economic activities returns, both business and professionals
- Gains and losses
- The income allocations established by Law

Exempt incomes are found in a closed list in Article 7 of the personal income tax, among which we find benefits for terrorism, allowances, awards, scholarships, pension for people who suffered injuries during the civil war, etc.

The quantification of the taxable base is in accordance with the following procedure:

- First, quantify and qualify the income according to its origin (income from work, income from capital, income from economic activities or gains and losses).
- Then apply the reductions to the net yield corresponding to each income funds.
- Finally integrate and compensate the different incomes depending on their origin.

Income is split into general income and savings income. After being calculated according to the rules for each particular type of income, the total of "general" and "savings" taxable base is termed. After any deductions and reductions it is then known as the net taxable base.

Savings income:

	2015	2016
0€ - 6.000€	20%	19%
6.000€ - 50.000€	22%	21%
Over 50.000€	24%	23%

Chart 3. Savings income taxation

Source: own calculation with data from AEAT <http://www.agenciatributaria.es/>

General income:

	2015	2016
0€ - 12.450€	20%	19%
12.451€ - 20.200€	25%	24%
20.200€ - 34.000€	31%	30%
34.000€ - 60.000€	39%	37%
Over 60.000€	47%	45%

Chart 4. General income taxation

Source: own calculation with data from AEAT <http://www.agenciatributaria.es/>

PERSONAL AND FAMILIAR MINIMUM (PIT)			
		2014 (€/year)	2015 (€/year)
Contributor	In general	5.151	5.550
	More than 65 years	5.151 + 918	5.550 + 1.150
	More than 75 years	5.151 + 918 + 1.122	5.550 + 1.150 + 1.400
Descendants	1st	1.836	2.400
	2nd	2.040	2.700
	3d	3.672	4.000
	4th and following	4.182	4.500
	Ascendants	More than 65 years or disabled	918	1.150
	More than 75 years	918 + 1.122	1.150 + 1.400
Disability	In general	2.136	3.000
	Degree of disability higher than 65%	7.038	9.000
	Assistance expenditure	2.316	3.000

Chart 5. PIT. Personal and familiar minimums

Source: own calculation with data from AEAT <http://www.agenciatributaria.es/>

Deductions and allowances are available. The personal and family minimum is the tax-free allowance. Any allowance not used against the general income can be set against the savings income.

Allowances are not given as a deduction against income, but instead they are given as a tax credit against the total tax liability. The amount of credit is calculated by taking the total personal allowance and multiplying this by the scale rates of tax, starting with the lowest rate first. It is then deducted from the taxpayer's total tax liability for the year.

II. Corporate Income Tax (CIT)

Corporate Income Tax is a tax levied on personal and direct income from companies and legal entities that have residence in Spain. The basis of taxation is the income earned by the corporation during a year.

There are different tax rates and below we will see which one has to be applied at each situation:

- General rate: 30% in 2014. With the entry of the tax reform in 2015 the general rate tax was reduced to 28% and in 2016 it will be lowered to 25%.
- Reduced rates of 15% for entrepreneurs: 2015 and 2016 preferential rate applicable to companies created during two years is 15%. It is necessary that the company carries out an economic activity. It is applied during the first tax period in which the taxable base is positive (and therefore requires us to pay corporation tax) and the following.
- Reduced rate of 25% for SMEs¹¹ : applied to the first 300.000 euros of taxable companies if the turnover of the previous year is less than 10 million euros. In 2015 taxed a 28% from 300.000 euros and in 2016 it is generalized to 25%.
- Reduced rates of 20% and 25% for micro-enterprises (small size businesses type II): these types are widespread in 2015 and 2016 to 25%. If the company has hired workers on the payroll this type will not be applied.

¹¹ small-sized enterprises type I

- Reduced rate of 20% for cooperatives: generically applicable to tax protected cooperatives.

III. Value Added Tax (VAT)

The Value Added Tax it's an indirect tax that levies on the consumption and the following operations that constitute the taxable base:

-The delivery of goods and the provisions of services. In order to be subjected to this tax, the delivery and the provision must be accomplishing this requirements:

- Has to be realized in the established area, this means in the Peninsula and in the Balearic Islands.
- Has to be realized by professional business owner.

-The intra-community transactions of goods. This can be defined as the collection, onerously, of the power of provision over dispatched movable goods or transported to the area of application of the tribute from a member Estate.

The transferor needs to have the condition of business owner or professional as an intra-community operator. The acquirer also has to act as a business owner or be a juridical person (As the article 13.1 of the IVA contemplates). This last one also has to be released into the tax Administration of a member state as an intra-communitarian operator.

-The import of goods

The regulation of this tax is attached in the "*Ley 37/1992, 28th of December*", and in the "*Real Decreto 1624/1992 29th of December*".

In this tax there are some exemptions, this means operations in which there is no obligation of taxation. These are collected in the article 20 and following of the law.

There's a general rate for this tax of 21%¹². But there are other two reduced rates of 10% and 4%¹³ that are applied in determined goods or services considered as basic necessities.

¹² 90th Article of Spanish VAT law

¹³ 91th Article of Spanish VAT law

So the 10% is applied, among others, to general food (for human and animals), houses, hospitality sector, passenger transport and others.

On the other hand, the 4% is applied to bread, milk, eggs, fruits, vegetables, cereals, cheese, books, newspaper, vehicles for disabled people and others.

Here we have a more disaggregated table of which are this products/services that enjoy of reduced rates for this tax:

Tax on goods and Services in Spain (IVA)	Rate
General rate	21%
Reduced rates	
Deliveries, intra-community acquisitions and importations of goods	
1. Substances or products used for human or animal nutrition	10%
2. Animals, vegetables and other products intended to the obtention of products for human or animal nutrition, including breeding animals and the destined to fattening before being used for animal or human consumption	10%
3. Goods used for agriculture activities, forestry or farming	10%
4. Suitable waters for human or animal alimentation or for water	10%
5. Medication for animal use	10%
6. Pharmaceutical products of direct using by the final consumer	10%
Medical equipment exclusively intended to people with phisical deficiency, mental, intelectual and sensorial	10%
Rest of medical equipment , sanitary products and others	21%
Medical equipment, fittings, and other instrumentation used to supply deficiencies of animals or with the objective of treatments of diseases	21%
7. Houses, parking garages, and annexes transmitted jointly with the house	10%
Are excluded: Business premises	21%
8. Seeds, bulbs, cuttings, and other products with vegetal origin used for the obtention of flowers and plants (Also flowers and plants with ornamental character)	10%
9. Delievery of goods related with their activity by funeral comp	21%
10. Imports of art objects, antiques and objects for collections	10%
11. Deliveries and intra-community aquisitions of art objects whose supplier is the author or people with rights on it	10%

Chart 6. VAT reduced rates

Source: own calculation, data from:

http://www.agenciatributaria.es/static_files/AEAT/Contenidos Comunes/La Agencia Tributaria/Segmentos Usuarios/Empresas y profesionales/Novedades IVA 2014/Nuevos tipos IVA.pdf

Service deliveries	
1. Passenger transports and their baggage	10%
2. Hostelry services, spa resorts, restaurants, food provision, drink	10%
Are excluded: Mixt hostelry services, shows, discotheques, barbecues and similar	21%
3. Services made in favour of titulars of agricultural explotations, forestal or farming	10%
Services of agrarian cooperatives for their partners as a consequence of their activity and accomplishing their social objective	10%
Are excluded: Transfers of use and leasing of goods	21%
4. Services provided for interpreters, artists, directors and technics (physical persons) to cinema producers and theaters	21%
5. Cleaning services of public roads, parks and community gardens	10%
6. Collecting services, storage, transport or elimination of residues. Also cleaning of public sewage and treatment of	10%
7. Entrance to theaters, shows, concerts, zoologic, cinema, cirques, amusement parks,	21%
8. Entrance to libraries, historical records, documentation centers, museums, art galleries,	10%
9. Services provided to phisical people who practice sport , and related to this practices (and that are no exempt)	21%
10. Social assistance to not exempt people	10%
11. Funerary services made by funerary companies and cements	21%
12. Health care, dental that are not exempt	21%
13. Sporting events with amateur character	10%
14. Showrooms and fairs with comercial character	10%
15. Hairdressing services	21%
16. Supply and reception of digital television	21%
17. Lease-topurchase houses, including 2 parking spaces and	10%
18. Transfer of rights of utilization for turns of buildings(when the building has at least 10 acommodations)	10%
19. Work executions of renovation, and reparations on houses accomplishing the established requirements	10%
Work executions on edificacions intended to homes (this means that at least 50% of the surface area is intendet to this utility), including locals, annexes, garage and complementary	
1. Work executions as a consequence of a contract directly formalised between the promotor and the contractor with the objective of construction or rehabilitation	10%
2. Sellings with instalation of cabinets for kitchens and bathrooms. Also built-in wardrobes. All these as a consequence of a contract as the said before	10%
3. Work executions as a consequence of contracts directly formalized between the commuinty of owners and the contractor with the objective of construction of garages in local or collective grounds with a maximum of 2 parking places per	10%

Chart 7. VAT reduced rates (2)

Source: own calculation, data from:

http://www.agenciatributaria.es/static_files/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Segmentos_Usuarios/Empresas_y_profesionales/Novedades_IVA_2014/Nuevos_tipos_IVA.pdf

Super-reduced rates	
Delivery of goods	
1. Common bread, baking flours, natural milk(certified), pasteurized, concentrated, skimmed; cheese, eggs, fruits, vegetables, legumes, tubers, cereals, that have the condition of natural products	4%
2. Books, newspaper, magazines with not only advertisement content	4%
Are excluded: Objects that for their characteristics only can be used as a school material	21%
3. Medication for human use	4%
Medical substances, active principles and products used in their collection	21%
4. Vehicles for people with reduced mobility and wheelchairs for their exclusive use. And engined vehicles that typically transport disabled people in wheelchairs or reduced mobility	4%
5. Prosthesis, orthosis, and internal implants for disabled people	4%
6. Social housing in special regim or public promotion, when the delievery is made by their developers including garages(with a maximum of 2 places)	4%
Service deliveries	
1. Repair services of vehicles for people with reduced mobility and wheelchairs. Services of adaptations for taxis and engined vehicles to transport this people	4%
2. Lease-topurchase social homes in a special regim or public promotion. Including garage places and annexes	4%
3. Services of telecare, home help, day&night centers, residencial atention	4%

Chart 8. VAT super-reduced rates

Source: own calculation with data from:

http://www.agenciatributaria.es/static_files/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Segmentos_Usuarios/Empresas_y_profesionales/Novedades_IVA_2014/Nuevos_tipos_IVA.pdf

VAT taxation rates evolution

VAT TAXATION RATE, 1986-2012 PERIOD						
	1986	1992	1992	1995	2010	2012
Superreduced	-	-	-	4	4	4
Reduced	6	6	6	7	8	10
General	12	13	15	16	18	21
Increased	33	28	28	-	-	-

Chart 9. VAT taxation rate

Source: own calculation with data from

http://biblioteca.unirioja.es/tfe_e/TFE000549.pdf

As we can see in this chart, the super-reduced rate came into force in 1995 with a taxation rate of 4%. Since 1995 this tax has maintained its rate until nowadays.

About the reduced rate, this remain in a 6% from 1986 to 1994. After that, in 1995 this reduced rate was increased a percentage point, up to 7%. In 2010 this increased another percentage point. Finally, in 2012 this suffer another increasing but this time was of two percentage points, arriving to the 10% (that we nowadays have).

The general rate is the one that has suffered a highest increase in the analysed years. If in 1986 the general rate for VAT was 12%, this increased to 15% in 1992 (three percentage points). Three years later, in 1995 this was 16%. In 2010, after the worst years of the great recession this general rate was 18%, but as we know, in 2012 this general rate was increased three percentage points until arriving to the actual 21%.

IV. Other taxes:

The Spanish constitution recognize the financial autonomy of provinces and municipalities for the administration of their respective interests.

The financial power of the local councils appears predetermined by a normative contained in State laws. In this laws the basic criteria is established with whom this can exercise their own competencies.

Each town council has to require the following imposts (they are mandatory):

- Immovable property tax
- Taxes on business capital
- Tax on mechanical traction vehicles

Immovable property tax¹⁴

It's a direct tax existing since 1990. This tax levy on the ownership of immovable rustic and urban properties. This tax does not take into account the rent that originate this properties.

The taxable event is the property of immovable properties located in the municipality where the tax is applied.

The passive subjects or contributors are the owners (physical or juridical person) of a property right or a concession on this properties.

The taxable base is the value of the immovable properties. This means that is the cadastral value fixed by the Administration.

About the exemptions, this include a wide content of types that reply to subjective criteria (for example; property of the State, Autonomous communities, Foundations or Associations with non-profit body) or objectives (for example private educational centres) among others.

¹⁴ In Spain "IBI. Impuesto sobre Bienes Inmuebles"

To calculate the tax liability, once determined the taxable base, the quote results of multiplying the taxable base for the pertinent rate.

The general rate is 0.4% for urban properties and 0.3% for rustic properties (and councils can increase or decrease the rate between what is established in the law).

The tax period of IBI is a natural year.

Tax on business capital¹⁵

This tax was established in 1992. In addition to his own purpose of levying the realization of economic activities in Spanish territory, develops an important census paper because procures a list of all entrepreneurs, businesspersons and artists that realizes an activity independently.

It's a direct, real, periodic and mandatory tax. The taxable event of this tax is the simple exercise in the national territory of economical, business, professional or artistic activities.

They are not subjected to this impost the agricultural, forestry, farming and fishing activities (And also the sale of immovable properties of companies existing for at least 2 years).

About the exemptions, as in the case of IBI, this is not demandable to the State, the autonomous communities, the Social Security and institutions with non-profit body.

About the passive subjects, those are the physical and juridical persons that realize in the national territory any business, professional or artistic activity.

The total amount to be paid is subjected to certain tariffs (there is no calculation of the taxable base). On them, in general, are related the taxed activities, fixing a quantity in function of certain elements (inhabitants of the municipality were they exercise, the number of workers, installed power, surface area, etc.)

This means that the quote is determined for every activity in function of tariffs. So it's a peculiar and complex mechanism.

About the exemptions, they are: physical people, all the contributors during the two first exercises of the activity and juridical persons that not exceed the million euros of benefits.

¹⁵ In Spain "IAE. Impuesto sobre Actividades Económicas "

Tax period coincides with the natural year.

Tax on mechanical traction vehicles¹⁶

It's a direct, periodic, municipal and mandatory tax established in 1990 that just as IAE neither specify the calculation of the tax base to determinate the amount of the tax liability.

The taxable event is constituted for the ownership of mechanical traction vehicles suitable to circulate for public roads, enrolled on the pertinent Public Register.

The exemptions of this tax are constituted by vehicles of the Public Administration, diplomatic and consular vehicles, urban transports and vehicles for disabled people.

Are passive subjects of this tax the physical and juridical persons that own this vehicles.

Tax liability is obtained with the power and class of the vehicle. The quote can be increased by the council in base of the inhabitants of the municipality.

Tax period also coincides with the natural year, excepting in the first acquisition of the vehicle that starts the day of purchasing and ends on the 31th of December.

V. Excise taxes

Under the nomination of excise taxes, the Spanish Taxation System comprises a group of heterogeneous taxes that levy specific consumptions. This are divided into three big groups: Excise taxes on manufacturing , excise taxes on determined modes of transport, insurance premium taxes.

The taxes on tobacco and alcohol (included in the first group) have a double justification. Firstly, this taxes are usually based on the necessity to correct the extern negative effects that the consumption of products have and that are not reflected in their price (that's why this taxes respond to the typology of "ordenation taxes"). In this case this taxes have the objective of restricting their consumption and try to levy part of the social cost that they have in the consumers.

Secondly, its justification can be found on optimum taxation criteria that say that it should be levied to a large extent the goods with most rigid demand. In this type of goods tobacco and alcohol are included due to their addictive properties.

¹⁶ *In Spain " Impuesto sobre vehículos de Tracción mecánica"*

So these taxes are indirect, real and objective.

Excise taxes on manufacturing (common rules)

Have the consideration of excise taxes on manufacturing:

- Tax on alcohol and derived drinks
- Tax on beer
- Tax on wine and fermented drinks
- Tax on intermediate products
- Tax on hydrocarbon
- Tax on tobacco labour
- Tax on electricity

Fabrication excise taxes are applied in all Spanish territory, excepting Canary Islands, Ceuta and Melilla.

It's considered taxable event:

-Fabrication of levied products: The taxable event is the fabrication of the product (the fabrication is considered as the departure of the product from the company). It has to be said that this is not produced until the moment fixed by law.

When the produced goods are intended to authorized tax warehouses, the accrual of the tax is produced when the goods departure from this tax warehouse

-Import of levied products: In general, the law subject to the tax the import of subjected good, understanding as importation the introduction into the communal national area of a product that proceed from a not communitarian country.

-Introduction into the internal area of a product that proceed from another communitarian country: The accrual of the tax is original when the contributor receive the product to be intended to commercialization.

In the end, the taxable event is produced with the departure from the factory or tax warehouse, the import or reception for the authorized person of a product that proceed from another communitarian country.

As a general rule, law point out as contributors the owner of the factory or tax warehouses and the importers.

Especially in intra-community acquisitions, the contributor passive subject is the receiver acquirer.

About the exemptions, those are the products intended to boat provisioning and international traffic aircrafts.

Excise taxes on specific modes of transportation

This tax also levy on consumption: on the use and consumption of automobile and other means of particular transportation. This is demanded as a result of first matriculation in Spain of this vehicles.

It's an indirect tax that levy, in a unique phase, the use and consumption of vehicles for a particular use.

Taxable event is constituted by the first definitively matriculation in Spain of: new or used automobile vehicles, naves or aircrafts.

It has to be subjected to the tax:

- The first registration in Spain of new or used motor vehicles for drive on roads and public lands, except those provided in Article 65 of the Excise Act.
- The first registration of boats and recreational boats or yachts, new or used, with more than seven and a half meters of maximum length, in the Register of Ships.
- The first registration of aircraft, new or used, equipped with mechanical motor in the Aircraft Registry, except those provided in Article 65 of the Excise Act

Are passive subjects of the tax people or entities in name of whom the first matriculation is made by.

Law determinate numerous exemptions which need a prior recognition by the administrations in many cases. The majority are based on the usage or purpose given to each vehicle (rental cars, rental boats that the length does not exceed 15 meters, the car used in driving schools taxis, cars of disabled people,...) or by the holder (Vehicles bearing diplomatic plate, registered aircraft on behalf of the State).

Excise taxes on insurance premiums

The object of this tax are the quantities collected by the insurance company in concept of quote or premiums.

The finality of this tax is submit to taxation the economic capacity that is revealed through the payment of insurance premiums.

It's an indirect, real and objective tax whose legal regime is contained in the article 12 of 13/1996 law of 30th December of this tax.

The taxable event is the realization of insurance and capitalization based on actuarial technique, concerted by insurance entities that operate in Spain.

Are exempted of taxation the operations referred to social insurances and collective insurances that implement alternative systems, operations related to life insurance, capitalization operations, combined agrarian insurances, and the insurances related to international transportation of goods and passengers.

This tax is required in the whole Spanish territory (territoriality principle). According to this principle, the insurance operations in which Spain is being the State in which the risk or compromise is located are subjected to this tax.

Are passive subjects of this tax the insurance entities that operate in Spain, and that perform operations levied for this tax. This entities have the obligation to impact the tax on the people that contract the insurance that are object of taxation.

The taxable base is constituted by the import of the prime or the paid quote.

d. Tax revenues structure (% of each tax on the total, 2010-2014)

TOTAL TAX REVENUES(Milion euros)						
	2010	2011	2012	2013	2014	
Personal income tax (PIT)	66977	69803	70619	69951	72662	
Corporate income tax (CIT)	16198	16611	21453	19945	18713	
Not Resident Personal income tax	2564	2040	1708	1416	1420	
Environmental taxation				1570	1625	
Other revenues	88	118	1319	167	195	
<i>DIRECT TAXES</i>	85827	88572	95081	93050	94614	
Value Added Tax (VAT)	49086	49302	50464	51931	56174	
Imports	7830	8833	8775	9382	10080	
Interior operations	41257	40469	41688	42548	46094	
Excise taxes	19806	18983	18209	19073	19104	
Alcohol and derived drinks	810	772	745	716	761	
Beer	279	279	283	275	293	
Intermediated products	18	17	17	18	19	
Hydrocarbon	9913	9289	8595	9933	9724	
Tobacco labours	7423	7253	7064	6539	6661	
Certain modes of transportation /Coal	0	1	0	147	264	
Electricity	1363	1372	1507	1445	1383	
FOREIGN TRAFFIC	1522	1531	1429	1311	1526	
Insurance taxes	1435	1419	1378	1325	1317	
Other revenues	44	15	113	86	113	
INDIRECT TAXES	71893	71250	71594	73725	78233	
FEES AND OTHER REVENUES	1816	1938	1892	2073	2140	
TOTAL TAX REVENUES	159536	161760	168567	168847	174987	

Chart 10. Total tax revenues 2010-2014

Source own calculation with data from

http://www.agenciatributaria.es/static_files/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Estadisticas/Informes_Estadisticos/Informes_Anuales_de_Recaudacion_Tributaria/Ejercicio_2004/rectot.pdf

Tax revenues structure

	2010	2011	2012	2013	2014
Personal income tax	41,98%	43,15%	41,89%	41,428%	41,524%
Corporate Income Tax	10,15%	10,269%	12,726%	11,81%	10,69%
Value Added Tax	30,768%	30,478%	29,937%	30,756%	32,10%
Excise taxes	12,41%	11,735%	10,80%	11,296%	10,92%
Other taxes	1,138%	1,198%	1,12%	1,22%	1,22%

Chart 11. Tax revenues structure

Source: own preparation with data from AEAT

http://www.agenciatributaria.es/static_files/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Estadisticas/Informes_Estadisticos/Informes_Anuales_de_Recaudacion_Tributaria/Ejercicio_2004/rectot.pdf

As we can see in this table, Spanish taxation system has maintained its structure very similar between 2010 and 2014 (after the worst years of economic crisis).

We can see that, if we don't take into account the social security contributions, the Personal Income Tax is the most important tax with a percentage of more than 40% in all this five years.

On the second place in terms of weight to the total tax revenues we have the Value Added Tax. This tax contributes in all the analysed years rounding the 30% and 30.5 of the revenues (excepting the maximum experienced in 2014 that represent a 32.1%). This last figure show that at least, the collection of this tax is improving after the worst years of the great recession.

The third place is different depending on the year we analyse, but always occupied by Excise taxes or Corporate Income tax. For example in 2010, 2011 and 2014, this is occupied by the Excise taxes (with a percentage of 12.41%, 11.735% and 10.92%, whereas the weight of CIT for this years was 10.15%, 10.269% and 10.69% respectively).

On the other hand, in 2012 and 2013 the weight of Corporate Income Tax was heavier than the one of the Excise taxes. The contribution in the total of CIT for this years was 12.726% and 11.81% respectively whereas the percentage of Excise taxes for this years was 10.80% and 11.296%.

Finally, on the fourth place we have other taxes that represent an average around 1.2% to the total in the five analysed years.

e. Effects of the housing bubble to the tax revenues

Here we will analyse how the tax revenues for some taxes had evolved and how this have been affected during the housing bubble. We will focus our study on the period that goes from 2000 to 2007.

We will use the information from the Tax Agency's annual reports to explain this evolution.

TOTAL SPANISH TAX REVENUES EVOLUTION						
(Million euros)	2000	2001	2002		2003	2004
			With ceded taxes	Without ceded taxes		
Personal Income Tax (PIT)	36766	41371	44344	44344	46451	47722
Corporate Income Tax (CIT)	17207	17215	21437	21437	21290	26020
Not resident Income Tax	1098	906	1052	1052	948	1395
Other direct taxes	332	349	341	41	49	49
<i>TOTAL DIRECT TAXES</i>	<i>55403</i>	<i>59842</i>	<i>67173</i>	<i>66873</i>	<i>69367</i>	<i>75187</i>
Value Added Tax (VAT)	33389	34673	36913	36913	40579	44507
Excise Taxes	16056	16567	17340	16150	16853	17514
Other indirect taxes	1824	1871	1961	1961	2169	2493
<i>TOTAL INDIRECT TAXES</i>	<i>51270</i>	<i>53120</i>	<i>56124</i>	<i>55025</i>	<i>59601</i>	<i>64514</i>
FEES AND OTHER REVENUES	1091	1590	1525	1246	1208	1153
TOTAL TAX REVENUES	107764	114552	124912	123144	130176	140854

Chart 12. Total Spanish tax revenues evolution

Source: own calculation with data from:

http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Informes_anuales_de_Recaudacion_Tributaria.shtml

TOTAL TAX REVENUES (Million euros)						
	2003	2004	2005	2006	2007	
Personal income tax (PIT)	46451	47722	54723	62813	72614	
Corporate income tax (CIT)	21920	26020	32495	37208	44823	
Not Resident Personal income tax	948	1395	1351	1498	2427	
Other revenues	49	49	63	77	114	
DIRECT TAXES	69367	75187	88631	101569	119979	
Value Added Tax (VAT)	40579	44507	49870	54652	55851	
Imports	11594	12669	9709	8647	9371	
Interior operations	47479	51431	61102	71071	77762	
Interior operations devolutions	18494	19593	20940	25066	31283	
Excise taxes	16853	17514	18022	18602	19786	
Alcohol and derived drinks	815	842	900	914	935	
Beer	229	233	243	279	286	
Intermediated products	18	18	18	21	21	
Hydrocarbon	9790	10123	10201	10414	10715	
Tobacco labours	5243	5487	5792	6000	6765	
Certain modes of transportation /Coal	0	1	4	1	-1	
Electricity	759	809	855	973	1065	
FOREIGN TRAFFIC	1020	1232	1458	1595	1720	
Insurance taxes	1126	1233	1314	1387	1491	
Other revenues	23	28	41	25	13	
INDIRECT TAXES	59601	64514	70706	76261	78861	
FEES AND OTHER REVENUES	1208	1153	1368	1523	1836	
TOTAL TAX REVENUES	130176	140854	160705	179380	200676	

Chart 13. Total tax revenues, million euros (2003-2007)

Source: own calculation with data from:

http://www.agenciatributaria.es/static_files/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Estadisticas/Informes_Estadisticos/Informes_Anuales_de_Recaudacion_Tributaria/Ejercicio_2004/rectot.pdf

And this other table is done with both previous ones:

	Personal income tax weight (%)	Value Added Tax Weight (%)	Corporate income tax (%)	Excise Taxes weight (%)	Rest	TOTAL (million euros)
2000	34,11	30,98	15,96	14,89	4,06	107.764
2001	36,11	30,26	15,02	14,47	4,14	114.552
2002	35,5	29,55	17,16	13,88	3,91	124.912
2003	35,68	31,17	16,83	12,94	3,38	130.176
2004	33,88	31,6	18,47	12,43	3,62	140.854
2005	34,05	31,03	20,22	11,21	3,49	160.705
2006	35,01	30,46	20,74	10,37	3,42	179.380
2007	36,18	27,83	22,33	9,85	3,81	200.676

Chart 14. Different tax weights to the total

Source: own calculation with data from:

http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Informes_anuales_de_Recaudacion_Tributaria.shtml

As we can see in this table, the tributary incomes increase was really huge in very few years. The total revenues in 2000 were a sum of 107.765 million euros and seven years

later this quantity was almost doubled, 200.676 million euros. It supposed an increase of 86.21% on public.

Analysing the tax income evolution from 2000 to 2007 we can see that:

-From 2000 to 2001 the tax income increased from 107.764 to 114.552 million euros, so it increased a 6.30%.

-From 2001 to 2002 the increase was a 9.05%, concretely from 114.552 to 124.912 million euros.

-In the period from 2002 to 2003 the tax income increase was a 4.20%, from 124.912 to 130.176 million euros.

-From 2003 to 2004 tax revenues increased 8.20%. Passing from 130.176 to 140.854 million euros.

-From 2004 to 2005 it increased from 140.854 to 160.705 million euros and it represented a 14.10%. This was the highest growth in all the years that we have been analysing.

-From 2005 to 2006 the tax income increased 11.62%, from 160.705 to 179.380 million euros.

-Finally from 2006 to 2007 the tax income increased from 179.380 to 200.767 million euros, an increase of 11.90%.

As we can see, the total tax income increased really fast, it increased almost a 14% in only one year, from 2004 to 2005.

We can appreciate that these numbers were unusual for the Spanish tax System.

If we consider the evolution of each tax's weight on the total from 2000 to 2007, we can observe those consequences:

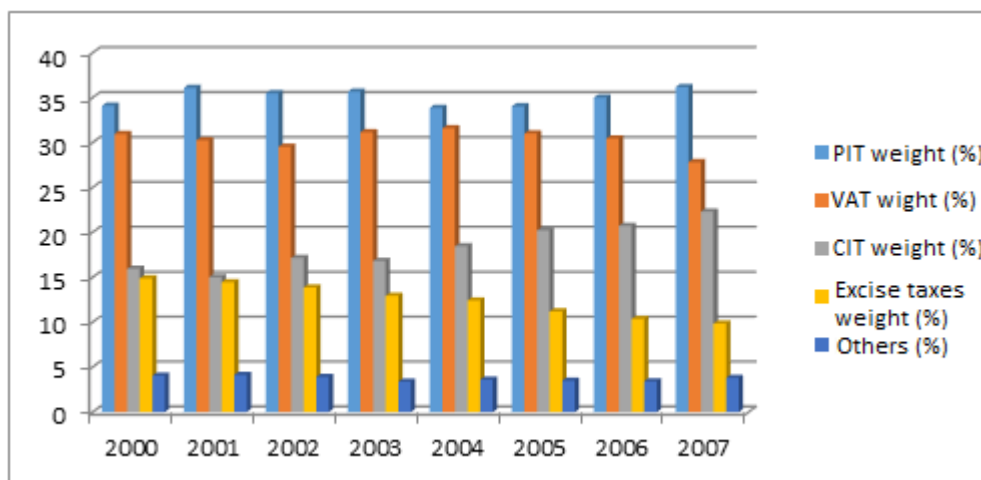
-Personal Income Tax during those years, the tax on personal income increased its weight on the total revenues a 2.07%, from 34.11% on 2000 to 36.18% on 2007.

-Value Added Tax: from 2000 to 2007 the tax on goods and services decreased a 3.15%. It declined from 30.98% on 2000 to 27.83% on 2007.

-Corporate Income Tax: this tax is the one that showed more changes from 2000 to 2007 because it increased a lot from one year to the other. On 2000 it represented a 1.6% on the total and on 2007 a 22.33%, so it increased an important percentage of 6.97%.

-About Excise Taxes, those had suffered an important decrease of weight. If this was almost 15% in 2000, this figure is less than 10% in 2007.

-Other taxes: finally, if we consider the weight of Other taxes on the total tax revenues we can observe that their weight has been maintained rounding the 4% of the total.



Graph 2. Different taxes weight to the total

Source: own calculation with data from:

http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Informes_anuales_de_Recaudacion_Tributaria.shtml

As we can see in this bar graph, the structure of the tax revenues in Spain during the bubble was always the same in all the analysed years. The IRPF (Tax on personal income) was the most important contribution, followed by the VAT, the IS and the IIEE.

Evolution of the main affected taxes

The building boom experienced just before the economic crisis was the direct consequence of the rising of housing prices and the construction of new housings.

During the bubble a large number of purchase-sale operations were realized and the value of this was increasing also. As a result of this, the revenues through the Property Transfer and Certified Legal Documents Tax was also increased.

PROPERTY TRANSFER AND CERTIFIED LEGAL DOCUMENTS TAX. TOTAL AMOUNTS (Million euros)											
AUTONOMOUS COMMUNITIES	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Andalucía	995.6	1118.8	1686.9	2222.1	2385.8	3175.7	2995	1720.9	1288.4	1291.6	1038
Aragón	156.6	213.8	271.8	321.5	424.4	485.3	456.2	278.7	248.3	205.2	163.7
Asturias	104.2	118.4	173.8	199.9	218.2	272.9	290.6	183.9	127.5	136.7	113.7
Balearic Islands	216.4	222.1	264.4	334.6	514	641	615.5	388.9	275.6	285.9	237.5
Canary Islands	201	227.9	271.2	350.8	490.7	573.6	552.3	333.5	259.6	254.6	223
Cantabria	90.1	93	141.2	167.2	229	257.3	241.1	134.5	177.5	112.4	184.2
Castilla-La Mancha	162.3	182.4	250.4	387.9	558.1	729.5	711.6	465.2	353.3	312.7	241.9
Castilla y León	249.8	307.8	346.7	484.4	587.1	683	677.3	431.1	337.3	334.9	258.5
Catalonia	1286.2	1676.5	2079.7	2695.1	3221.2	3852.9	3183.7	1707	1365.2	1333.3	1175.7
Valencian Community	697.8	993.7	1279.3	1670.4	2045.6	2421.8	2145	1136.2	970.6	859.5	691.5
Extremadura	68.4	77.6	129.4	142.5	171.2	200.1	197.7	141.2	121	109.4	95.3
Galicia	248.4	278.6	350	416.1	511.2	614.6	616.2	399.8	316.4	287.5	251
Madrid	1342.1	1813.5	2258.5	2613.4	3038.4	3468.9	2993.6	1774.8	1411.4	1430.4	1046.8
Murcia	156.7	183.1	256	361	547.9	654.1	650	364.2	282.3	236.5	183.1
Navarra	78.7	88.9	95.4	110.4	133.4	158	133.5	92.6	74.2	68.5	56.4
Basque Country	271.1	298	342.1	391.4	422.8	504.6	507	300.6	247.4	275.7	157
La Rioja	41.2	47.5	60.8	90.3	112.3	128.4	120.2	74.8	58.5	54	54.3
TOTAL	6366.7	7941.7	10257.6	12959	15611.4	18821.5	17086.4	9928.1	7914.5	7588.7	6171.8

Chart 15. Property transfer and Certified Legal Documents Tax revenues

Source: own preparation with data from

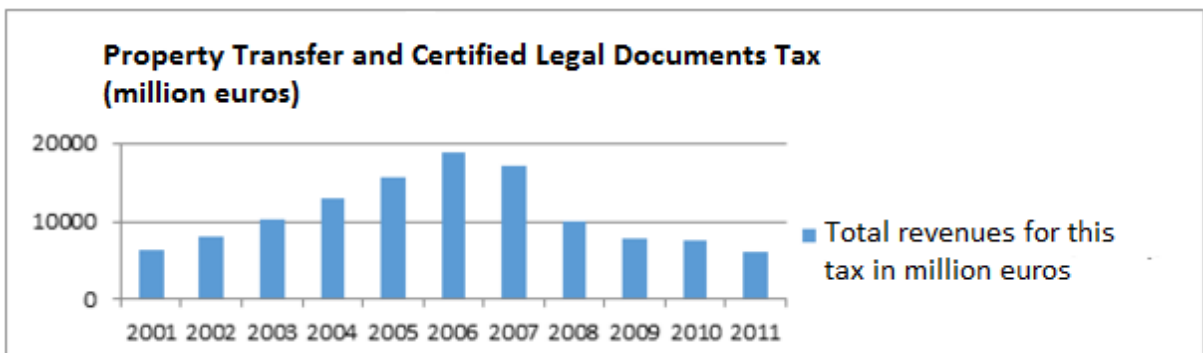
http://www.minhap.gob.es/Documentacion/Publico/Tributos/Estadisticas/Recaudacion/2011/Analisis_estadistico_recaudacion_2011.pdf

As we can see in this chart, 2006 is the last year of increment in the collection of this tribute. After this year, the collection of this tribute suffers an unprecedented decrease. Inclusive, the tax revenues for this tribute in 2011 is underneath to the one achieved for the same tribute in 2000.

The increase of revenues for this tribute between 2001 and 2006 was about 195%. So if in 2001 the tax revenues for ITP AJD were 6.366'7 million euros, those for 2006 were 18.821'5 million euros. This figures are very important if we analyse the normal collection for this tax in Spain.

It was between 2006 and 2007 when the first symptoms of the crack were noted. The revenues for this tribute pass from 18.821'5 million euros in 2006 to 17.086'4 million euros in 2007 assuming a diminution of 9%.

But the most shocking figure is the decline that suffers the revenues between 2007 and 2008. In this case, this goes from 17.086'4 million euros in 2007 to only 9.928'1 million euros in 2008 and supposing a fall of 41.9%. From 2008 on, the tax revenues still falling but not at this important quantities that we have seen.



Graph 3. Property transfer and Certified Legal Documents Tax revenues. Million euros

Source: own preparation with data from minhap:

http://www.minhap.gob.es/Documentacion/Publico/Tributos/Estadisticas/Recaudacion/2011/Analisis_estadistico_recaudacion_2011.pdf

On the other hand, during the building boom, construction companies and financial institutions also obtained a huge amount of benefits. This also caused a heavy raise in the tax revenues for the CIT (Corporate Income Tax) as we can see in the following tables drawn from “Ministerio de Hacienda y Administración Pública de España”.

CORPORATE INCOME TAX . TOTAL STATE REVENUES (Million euros)											
CONCEPT	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real estate assets retentions	380.5	412.2	458.6	496.8	547.2	603.5	771.2	860.5	808.7	802	782
Collective investment institutions reductions	214.6	171.9	103.2	113.7	153.3	223.4	375.9	401.9	197.7	172.4	143.6
Movable capital retentions	1278.9	1570.4	1267.4	1107.6	1220.7	1524.3	2109.2	2657.7	2351.1	2047.5	2216.5
Fractioned payments	9818.9	10822.4	13230.8	15455.6	18821.2	21919.3	23067.7	13536.4	13060.5	10423.5	9634.4
Differential net quota	5522.4	8460.3	6859.6	8846.1	11752.9	12937	18499.3	9844.9	3770.5	2752.4	3384.1
TOTAL	17215.2	21437	21919.6	26019.9	32495.3	37207.6	44823.2	27301.4	20188.5	16197.8	16610.7

Chart 16. CIT. Total state revenues in million euros

Source: own calculation with data from minhap:

http://www.minhap.gob.es/Documentacion/Publico/Tributos/Estadisticas/Recaudacion/2011/Analisis_estadistico_recaudacion_2011.pdf

As we can see in this chart, Corporate Income Tax collection increased from 17.215,20 million euros on 2001 to 44.823,20 million euros on 2007, so it represented an increase of 160%. Here we can see that during the housing bubble, the collection of Tax on corporate profits was really important.

The most important fact is the enormous decrease that affected this tax's income during 2007 and 2008. On 2007 the total revenues of Tax on corporate profits were 44.823,20 million euros and on 2008 these incomes were only 27.301,40 million euros. So it supposed a decline of a 39.10%.

To sum up we will analyse the Wealth Tax:

WEALTH TAX. TOTAL TAX REVENUES (Million euros)											
AUTONOMOUS COMMUNITIES	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Andalucía	73.2	78	81.2	85.7	103.1	122.7	147.4	164	4.1	1.1	1.1
Aragón	35.8	33.8	32.6	35.6	41.8	50.5	64.9	75.4	0.5	1.9	1.1
Asturias	24.4	24.4	22.5	24.4	27	32.2	38.1	43.1	0.5	1.9	0.7
Balearic Islands	27.1	27.3	28.7	30.1	34.2	41.9	49.3	59.8	0.8	6.8	1.8
Canary Islands	29.3	30.1	30.1	30.1	34.1	37.2	44.2	47.3	0.6	1.5	0.1
Cantabria	18.9	17.6	18.7	20.4	22.7	27.4	34	42.9	1.1	3.4	-0.4
Castilla-La Mancha	15.4	13.8	14.8	18	19.6	25.7	34.7	42.7	0.8	1.5	0.4
Castilla y León	46.1	45.1	42.9	46	51.8	61.8	73.1	83.5	0.6	-0.1	-0.5
Catalonia	244.5	243.5	274.1	275.3	303.3	362.9	453.2	536.4	2.8	12.2	10.8
Valencian Community	97	99.5	100.9	107.3	121.5	147.3	188.3	216.1	1.5	3.5	0.4
Extremadura	6.7	6.6	7.1	7.2	8.2	9.5	10.7	11.2	0.1	0	0
Galicia	40.9	47	49.4	44.8	51.6	65.1	74.5	81.6	0.3	0.7	0.6
Madrid	-	300.1	298.3	301.9	348.3	412.1	524.4	642	17.2	63.6	25
Murcia	12.7	14.4	16.6	19	22.3	27.2	35.2	41.7	0.6	0.8	2.4
Navarra	43.5	39.5	38.1	42.2	43.9	52.2	61.9	66.3	3.2	0	0
Basque Country	119.1	108.8	96	93.4	107	127.1	154.3	181.3	49.6	0	0
La Rioja	9.3	9.5	9.6	11.7	13.1	16.7	21.3	25	0.1	0.2	0.2
TOTAL	843.9	1139.2	1161.6	1192.8	1353.6	1620.5	2009.6	2360.3	84.2	99.1	43.7

Chart 17. Wealth tax. Total tax revenues in million euros

Source: own calculation with data from minhap:

http://www.minhap.gob.es/Documentacion/Publico/Tributos/Estadisticas/Recaudacion/2011/Analisis_estadistico_recaudacion_2011.pdf

Wealth Tax collection increased from 843.90 million euros in 2001 to 2.360,30 million euros in 2008, so it represented an unexperienced growth of 180%. During the following years we can appreciate an enormous decrease of this tax's collection due to the abolition of this tax by PSOE's government.

f. Great recession effects

As mentioned above, during the housing bubble Spain collected extraordinary tax revenues. The main problem was that these collected revenues during the bubble became the basis for a permanent long-term expenditures, which should not have been

like this. Due to this fact, once the housing bubble burst, caused an exaggerated tax revenues' fall as showed below (being one of the most affected countries of Europe).

The economic crisis was noticeable since the second half of 2008. We could see the most difficult side of the crisis during 2009 and nowadays we can affirm it is not still finished. Those eight crisis years show that is the industrial world's biggest activity decline since the 1928th depression.

The underestimate risk and the excess of confidence were two of a large list of evidences that caused the economic crisis and that affected public administrations, banks, enterprises and families.

Consequences for the public sector

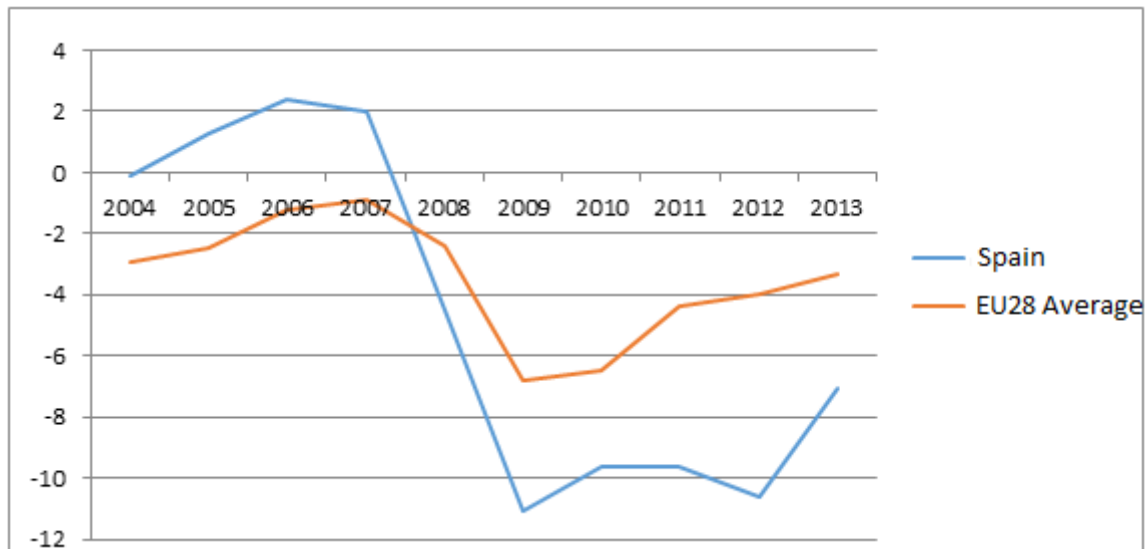
The great recession has had a significant impact on the budget and public debt, and it is significantly limiting the capacity of governments to correct the imbalances that were generated.

Percentage of public deficit on the total public Administrations

	Spain	EU28 Average
2004	-0,1	-2,9
2005	1,3	-2,5
2006	2,4	-1,2
2007	2	-0,9
2008	-4,5	-2,4
2009	-11,1	-6,8
2010	-9,6	-6,5
2011	-9,6	-4,4
2012	-10,6	-4
2013	-7,1	-3,3

Chart 18. Percentage of public deficit on the total public administrations

Source: own calculation with Eurostat's data <http://ec.europa.eu/eurostat/data/database>



Graph 4. Spain percentage of public deficit. EU28 average comparison

Source: handmade with Eurostat's data <http://ec.europa.eu/eurostat/data/database>

As we can observe in those two public debt evolution graphics shown above (in percentage of GDP), in 2008 were noticed the first effects on the Spanish budget.

After a short surplus period (as we can see in 2006 with a 2% and in 2007 with a surplus of a 1.90%), we face the first warning of a dangerous crisis. In 2008 Spain presents a deficit of 4.50% followed by four years of public incomes decline and of public debt increase.

This deficit is basically a consequence of the public incomes decline during those years and because of the huge increase of the public expenditures.

Public incomes' decline

Analysing first falling revenues, we can use the following table taken from the OECD Data¹⁷, which shows the evolution of the tax revenue of the 34 countries that form it.

¹⁷ OECD Data webpag: <https://data.oecd.org/>

Table A. Total tax revenue as % of GDP

	1965	1975	1985	1995	2000	2007	2009	2011	2012	2013 p
Australia	20.6	25.4	27.7	28.2	30.4	29.6	25.8	26.3	27.3	n.a.
Austria ¹	33.6	36.4	40.5	41.0	42.1	40.5	41.0	41.0	41.7	42.5
Belgium	30.6	38.8	43.5	42.8	43.8	42.4	42.0	42.9	44.0	44.6
Canada	25.2	31.4	31.9	34.9	34.9	32.3	31.4	30.4	30.7	30.6
Chile	..	..	..	18.4	18.8	22.8	17.2	21.2	21.4	20.2
Czech Republic	..	..	..	34.9	32.5	34.3	32.4	33.4	33.8	34.1
Denmark ¹	29.5	37.8	45.4	48.0	48.1	47.7	46.4	46.6	47.2	48.6
Estonia	..	..	..	36.2	30.9	31.1	34.9	31.9	32.1	31.8
Finland	30.0	36.1	39.1	44.5	45.8	41.5	40.9	42.0	42.8	44.0
France ¹	33.6	34.9	41.9	41.9	43.1	42.4	41.3	42.9	44.0	45.0
Germany ²	31.6	34.3	36.1	36.2	36.3	34.9	36.1	35.7	36.5	36.7
Greece ¹	17.0	18.6	24.4	27.6	33.1	30.9	29.6	32.5	33.7	33.5
Hungary	..	..	..	41.0	38.7	39.6	39.0	36.9	38.5	38.9
Iceland	25.5	29.2	27.4	30.4	36.2	38.7	32.0	34.5	35.3	35.5
Ireland	24.5	27.9	33.7	31.8	30.9	30.4	27.0	26.7	27.3	28.3
Israel ²	..	..	..	35.2	35.6	34.7	29.8	30.9	29.6	30.5
Italy	24.7	24.5	32.5	38.6	40.6	41.7	41.9	41.4	42.7	42.6
Japan	17.8	20.4	26.7	26.4	26.6	28.5	27.0	28.6	29.5	n.a.
Korea	..	14.2	15.3	19.0	21.5	24.8	23.6	24.0	24.8	24.3
Luxembourg	26.4	31.2	37.5	35.3	37.2	37.2	39.0	37.5	38.5	39.3
Mexico	..	..	15.2	14.9	16.5	17.6	17.2	19.5	19.6	19.7 ⁴
Netherlands	30.9	38.4	39.9	39.0	36.8	36.3	35.4	35.9	36.3	n.a.
New Zealand	23.6	28.0	30.6	35.8	32.9	34.5	31.0	31.4	33.0	32.1
Norway	29.6	39.2	42.6	40.9	42.6	42.9	42.0	42.7	42.3	40.8
Poland	..	..	..	36.1	32.7	34.5	31.3	31.8	32.1	n.a.
Portugal	15.7	18.9	24.1	28.9	30.6	31.3	29.5	32.0	31.2	33.4
Slovak Republic	..	..	..	39.6	33.6	28.8	28.4	28.3	28.1	29.6
Slovenia	..	..	..	38.4	36.6	37.1	36.2	36.3	36.5	36.8
Spain ¹	14.3	18.0	26.8	31.3	33.4	36.4	29.8	31.2	32.1	32.6
Sweden	31.4	38.9	44.8	45.6	49.0	44.9	44.0	42.3	42.3	42.8
Switzerland	16.6	22.5	23.9	25.5	27.6	26.1	27.1	27.0	26.9	27.1
Turkey	10.6	11.9	11.5	16.8	24.2	24.1	24.6	27.8	27.6	29.3
United Kingdom	29.3	33.6	35.6	32.1	34.7	34.1	32.3	33.6	33.0	32.9
United States	23.5	24.6	24.6	26.7	28.4	26.9	23.3	24.0	24.4	25.4
<i>Unweighted average:</i>										
OECD total	24.8	28.6	31.7	33.6	34.3	34.2	32.7	33.3	33.7	34.1⁵

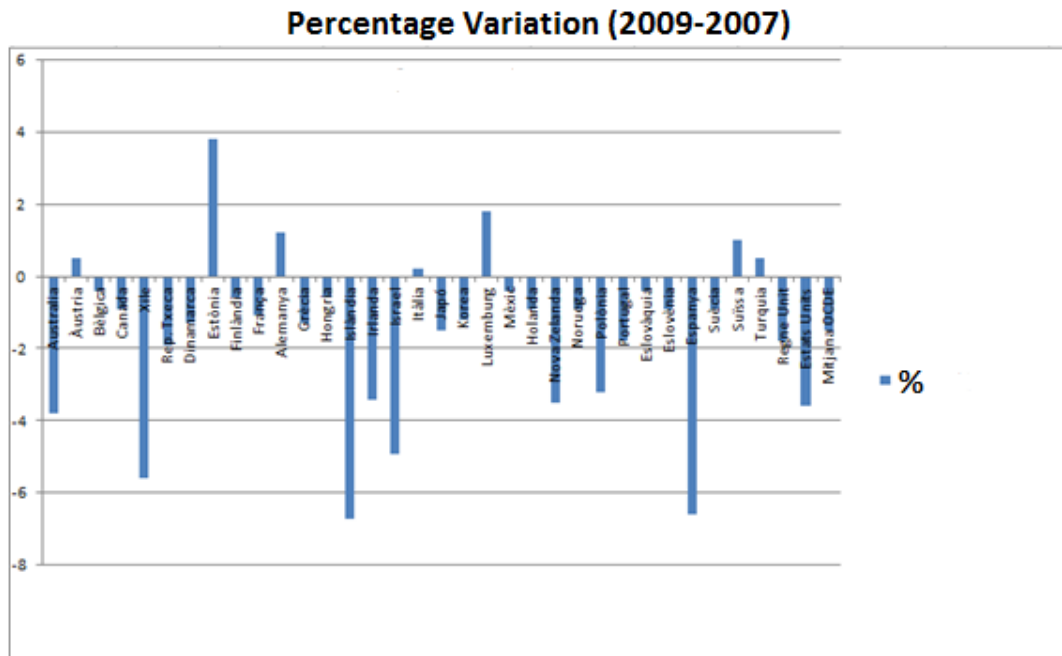
Chart 19. OECD countries total tax revenues as a % of GDP

Source: OCDE <https://data.oecd.org/>

As it is shown in the above table, from 2007 to 2009 the OECD tax incomes average as percentage of GDP decreased from 34.20% to 32.70%, so the OECD countries revenues declined an average of 1.50%.

If we analyse the case of Spain, we can observe that their public incomes in 2007 represented a 36.40% of GDP. Two years later, in 2009 those incomes supposed only a 29.80%, so it means a decline of a 6.60% of GDP.

We will observe this bars' graphic that compares the 34 countries that form the OECD to raise awareness of the seriousness of the facts.



Graph 5. Percentage variation 2009-2007 from chart above
 Source: own calculation with OECD data <https://data.oecd.org/>

Just as this bar graph shows, although the trend that we can see in the OCDE countries to be lessened their tax revenues, Spain has been the second country (of the analysed countries) in which more have fallen their tax revenues during the economic crisis (only been overtaken by Island and for very little difference).

This fact is related with the reduction in the activity and lack of richness creation that induce to a serious impact to the taxable bases. But, which is the reason why of this big difference with Spain compared with the rest of the OECD?

If we analyse the figures of Spain compared with the UE countries, the reduction of tax revenues was the most important one.

TOTAL TAX REVENUES(Million euros)						
	2005	2006	2007	2008	2009	
Personal income tax (PIT)	54723	62813	72614	71341	63857	
Corporate income tax (CIT)	32495	37208	44823	27301	20188	
Not Resident Personal income tax	1351	1498	2427	2262	2342	
Other revenues	63	77	114	107	74	
DIRECT TAXES	88631	101596	119979	101012	86461	
Value Added Tax (VAT)	49870	54652	55851	48021	33567	
Imports	9709	8647	9371	9244	6235	
Interior operations	61102	71071	77762	70746	63640	
Interior operations devolutions	20940	25066	31283	31970	36308	
Excise taxes	18022	18602	19786	19570	19349	
Alcohol and derived drinks	900	914	935	903	802	
Beer	243	279	286	285	277	
Intermediated products	18	21	21	20	18	
Hydrocarbon	10210	10414	10715	10152	9851	
Tobacco labours	5792	6000	6765	7024	7131	
Certain modes of transportation /Coal	4	1	-1	-1	-1	
Electricity	855	973	1065	1187	1271	
FOREIGN TRAFFIC	1458	1595	1720	1566	1319	
Insurance taxes	1314	1387	1491	1502	1406	
Other revenues	41	25	13	18	15	
INDIRECT TAXES	70706	76261	78861	70677	55655	
FEES AND OTHER REVENUES	1368	1523	1836	1765	1907	
TOTAL TAX REVENUES	160705	179380	200676	173453	144023	

Chart 20. Total tax revenues in Spain 2005-2009

Source: own calculation with data from

www.agenciatributaria.es/static_files/AEAT/Estudios/Estadisticas/Informes_Estadisticos/Informes_Anuales_de_Recaudacion_Tributaria/Ejercicio_2009/Ingresos_tributarios_y_no_financieros_totales.pdf

If we calculate the variation between 2007 and 2009, the result is that the total tax revenues fell a 28.23% between this years. This goes from 200.676 million euros in 2007 to be 144.023 million euros in 2009.

Rising of public spending

As we will see in the following chart, during the years after the great recession Spain experimented an important rise of the public spending. If this was 420.680 million euros in 2007, this passed to be 500.071 million euros in 2012. The quantification of this growth is 79.391 million euros.

If we take the variation between 2007 and 2009, to take the same period as the one we have taken in the public income decline part, we can see that the figure is also outstanding. If public spending in Spain was 420.680 million euros in 2007, this same figure was 493.865 million euros in 2009. This represent an increment of 73.185 euros (17.4% in three years).

If we focus now on the percentage public spending /GDP we can appreciate that this passed from 38.9% in 2007 to 48% in 2012, and supposing an increase of 9.1%. This figures show that in 2012, the public spending arrived to represent almost the 50% of the GDP (So this means that the half of all national production in 2012 was destined, mainly, to cover the expenditures on pensions, education, health, unemployment and social exclusion).

	Public expenditure (million euros)	Public expenditure (%GDP)
2007	420.680	38.90
2008	459.294	41.1
2009	493.865	45.8
2010	493.106	45.6
2011	490.261	45.8
2012	500.071	48
2013	465.437	45.10
2014	463.041	44.5
2015	468.421	43.3

Chart 21. Public expenditure evolution in Spain

Source: own calculation with data from

<http://www.datosmacro.com/estado/gasto/espana>

This rise of the public spending is also explained with the development of “*Plan para el estímulo de la Economía y el Empleo*”. This plan was carried out for Zapatero’s government, with the objective of boosting the country in order to face the economic crisis. To face this last one, Spanish State mobilized a huge quantity of public money.

This called “Plan E” incorporated two funds to realize public works in different communities. In the first fund, the “*Fondo Estatal de Inversión Local*” of 2009 they were 7.860 million euros.

The second fund, called “*Fondo Estatal para el Empleo y la Sostenibilidad Local*” of 2010 an amount of 4.250 million euro in public spending was moved.

If we aggregate the two funds, the “Plan E” represented a total amount of 12.110 million euros. The court of auditors in Spain ensured that this plan was not useful to create occupation nor for endow the country with infrastructures with added value.

Some projects are still been paid and have been untenable once made. This court also complains about a project called FEIL¹⁸ in which they spent 37 million euros in cartels, supposing more misuse of this money.

g. The years after the economic crisis

Until now we have been analysing the evolution of tax revenues during the housing bubble and the affectation of the great recession to the different tributes. Down below we are going to see the evolution from 2010 up to the present.

TOTAL TAX REVENUES(Milion euros)					
	2010	2011	2012	2013	2014
Personal income tax (PIT)	66977	69803	70619	69951	72662
Corporate income tax (CIT)	16198	16611	21453	19945	18713
Not Resident Personal income tax	2564	2040	1708	1416	1420
Environmental taxation				1570	1625
Other revenues	88	118	1319	167	195
DIRECT TAXES	85827	88572	95081	93050	94614
Value Added Tax (VAT)	49086	49302	50464	51931	56174
Imports	7830	8833	8775	9382	10080
Interior operations	41257	40469	41688	42548	46094
Excise taxes	19806	18983	18209	19073	19104
Alcohol and derived drinks	810	772	745	716	761
Beer	279	279	283	275	293
Intermediated products	18	17	17	18	19
Hydrocarbon	9913	9289	8595	9933	9724
Tobacco labours	7423	7253	7064	6539	6661
Certain modes of transportation /Coal	0	1	0	147	264
Electricity	1363	1372	1507	1445	1383
FOREIGN TRAFFIC	1522	1531	1429	1311	1526
Insurance taxes	1435	1419	1378	1325	1317
Other revenues	44	15	113	86	113
INDIRECT TAXES	71893	71250	71594	73725	78233
FEES AND OTHER REVENUES	1816	1938	1892	2073	2140
TOTAL TAX REVENUES	159536	161760	168567	168847	174987

Chart 22. Spanish total tax revenues 2010-2014.

Source:

http://www.agenciatributaria.es/static_files/AEAT/Estudios/Estadisticas/Informes_Estadisticos/Informes_Anuales_de_Recaudacion_Tributaria/Ejercicio_2009/Ingresos_tributarios_y_no_financieros_totales.pdf

As we can see in this data table, depart from 2010 the total tax revenues seems to recover after the effect of the situation previously analysed.

Concretely, from 2010 to 2011 the tax revenues increased from 159.536 million euros to 161.760 respectively. This supposed an increment of 1.4%

¹⁸ FEIL. "Fondo Estatal de Inversión Local"

Between 2011 and 2012, this went from 161.760 million euros to 168.567 million euros, and supposing an increment of 4.2%.

In the year between 2012 and 2013 we obtain the lightest raise of tax revenues of all the analysed years. This increment was 0.16%, passing from 168.567 million to 168.847 million euros respectively.

Finally, from 2013 to 2014 tax revenues go back up again considerably, growing from 168.847 million to 174.987 million euros. This implies an increase of 3.63%.

If, instead, we calculate the total increase from 2010 to 2014, this passed from 159.536 million euros to 174.987 million euros, and supposing a total increase of 9.68%.

Therefore, we can conclude that the tax revenues turn back raising year by year after the big collapse suffered due to the crisis as we have seen before.

3. Comparison of the taxation structure in Spain, Germany, France and Italy during 2005, 2010 and 2014

To do this section we have compared the tax revenues structure of Spain, Germany, France and Italy for the years 2005, 2010 and 2014. We choose this years to see if they've been changes on it between the building boom (2005), when the effects of the crisis were obvious (2010), and a year of "recuperation of this great recession" (2014). We have used the data offered by OECD on its website ("OECD Data").

Apart of this first objective, we will also analyse if Spain follows a similar trend like this countries .So we will see if the different taxes that are more important in terms of contribution to the total tax revenues are the same taxes as the other 3 important countries of the EU, or on the contrary, which is the difference with this countries.

Before starting the analysis, it's important to say that we have taken as a "tax on property" the Spanish "*Impuesto Sobre Transmisiones Patrimoniales*", because as OECD defines this relapse on the use, property or transmission of patrimony.

The taxes that we will use to do this analysis are the Personal Income Tax (PIT), Corporate Income Tax (CIT), Tax on property (ITP) and Value Added Tax (VAT). To do this country comparison we have not considered the Social Security Contributions

Now we are going to analyse the contribution to the total tax revenues that each tax has had in 2005, 2010 and 2014.

PERSONAL INCOME TAX. CONTRIBUTION TO THE TOTAL TAX REVENUES (%)			
	2005	2010	2014
Spain	27.24	36.06	34.08
Germany	38.3	39.88	42.81
France	28.64	27.67	29.92
Italy	36.85	39.33	38.07

PERCENTAGE VARIATIONS			
	(2010 - 2005 Variation)	(2014 - 2010 Variation)	(2014 - 2005 Variation)
Spain	8.82	- 1.98	6.84
Germany	1.58	2.93	4.51
France	- 0.97	2.25	1.28
Italy	2.48	- 1.26	1.22

Charts 23. Personal income tax contribution to total tax revenues

Source: own calculation with data from OECD data (<https://data.oecd.org/>)

If we analyse the weight of PIT on the total taxation for 2005, 2010 and 2014 we can see that from 2005 to 2010 it increased its weight in Spain a 8.82%, in Germany a 1.58%, in Italy a 2.48% and finally in France it presented a decrease of a 0.97%. So we can

appreciate that between this years the importance of this tax had raised in all countries except in France.

Comparing the variation percentage of the tax weight from 2010 to 2014 we can see that Spain presented a decrease of 1.98% of its weight and in Italy it also presented a decrease of 1.26%. On the contrary in Germany there was an increase of the weight of the tax on personal income of a 2.93% and in France an increase of 2.25%, so it means that this tax had won importance in the French taxation system.

As we have already mentioned in the first part of the work, PIT suffered in 2012 an increase of the taxation rates. This was a measure with the objective of increasing collection to face the great recession. But as this chart shows, this measure (that was maintained until 2014) was not effective, because the weight of this tax diminish around 2%.

Finally if we analyse the general variation percentage of the tax weight from 2005 to 2014 we can observe that the four countries have increased the weight of the tax on personal incomes. In Spain it increased a total of 6.84%, in Germany a 4.51%, in France a 1.28% and in Italy a 1.22%.

CORPORATE INCOME TAX. CONTRIBUTION TO THE TOTAL TAX REVENUES (%)			
	2005	2010	2014
Spain	16.05	11.86	8.93
Germany	8.52	7	6.87
France	8.73	8.11	7.24
Italy	9.9	9.46	9

PERCENTAGE VARIATIONS			
	(2010 - 2005 Variation)	(2014 - 2010 Variation)	(2014 - 2005 Variation)
Spain	- 4.19	- 2.93	- 7.12
Germany	- 1.52	- 0.13	- 1.65
France	- 0.62	- 0.87	- 1.49
Italy	- 0.44	- 0.46	- 0.9

Charts 24. Corporate Income Tax contribution to total tax revenues

Source: own calculation with OECD data (<https://data.oecd.org/>)

Analysing the CIT tax weight variation percentage of the four countries we can see that this tax weight from 2005 to 2010 decreased generally in all the countries, so it means that CIT had lost importance in the tributary structure. Concretely in Spain it decreased

a 4.19%, a 1.52% in Germany, a 0.62% in France and finally in Italy the weight of this tax decreased a 0.44%.

If we compare the tax weight variations from 2010 to 2014, we can observe that the four countries presented a decrease of their weight of CIT on the total. In Spain the decrease was 2.93%, in Germany the weight of this tax decreased a 0.13%, in France a 0.87% and finally in Italy a 0.46%.

Finally if we compare the tax importance variation from 2005 to 2014 we can appreciate a general decrease of the weights. It concretely decreased a 7.12% in Spain, the importance of the tax decreased a 1.65% in Germany, in France a 1.49% and finally a 0.90% in Italy.

TAX ON PROPERTY. CONTRIBUTION TO THE TOTAL TAX REVENUES (%)			
	2005	2010	2014
Spain	12.62	10.86	10.64
Germany	4.1	3.83	3.9
France	12.22	13.8	13.82
Italy	7.23	7.01	8.36

PERCENTAGE VARIATIONS			
	(2010 - 2005 Variation)	(2014 - 2010 Variation)	(2014 - 2005 Variation)
Spain	- 1.76	- 0.22	- 1.98
Germany	- 0.27	0.07	- 0.2
France	1.58	0.02	1.6
Italy	- 0.22	1.25	1.13

Charts 25. Tax on Property contribution to the total tax revenues

Source: own calculation with OECD data (<https://data.oecd.org/>)

Analysing the weight variation of tax on property during 2005 to 2014 we can observe that from 2005 to 2010 there was a decrease of the tax contribution to the total of 1.76% in Spain, a 0.27% in Germany and 0.22% in Italy. The unique country that presented a increase of Tax on Property weight was France with a 1.58%.

If we focus now on the period from 2010 to 2014, we can appreciate a decrease of Tax on Property weight of 0.22% in Spain. The other countries presented light increase. In Germany there was a rise of the weight of 0.07%, in France the increase was 0.02% and finally in Italy there was an important increase of a 1.25%.

Finally we can compare the variation of the weight from 2005 to 2014. We can see that in two countries there was a weight decrease of the tax on property. Concretely, in Spain

it decreased a 1.98% and a 0.20% in Germany. On the contrary, France presented a weight increase of a 1.60% and in Italy a 1.13%.

VALUE ADDED TAX. CONTRIBUTION TO THE TOTAL TAX REVENUES (%)			
	2005	2010	2014
Spain	41.91	37.71	43.43
Germany	48.32	48.5	45.53
France	40.42	41.04	39.1
Italy	38.15	38.17	38.41

PERCENTAGE VARIATIONS			
	(2010 - 2005 Variation)	(2014 - 2010 Variation)	(2014 - 2005 Variation)
Spain	- 4.2	5.72	1.52
Germany	0.18	- 2.97	- 2.79
France	0.62	- 1.94	- 1.32
Italy	0.02	0.24	0.26

Charts 26. Value Added Tax contribution to total tax revenues

Source: own calculation OECD data (<https://data.oecd.org/>)

In this table we can observe the weight percentage variations of Value Added Tax from 2005 to 2010. Between this years we can appreciate a decrease of the weight of this tax that was 4.20% in. The rest of the countries presented a light rise. In Germany the VAT weight on the total increased a 0.18%, in France a 0.62% and a 0.02% in Italy.

About the VAT weight variation from 2010 to 2014, in Spain we can appreciate an increase of a 5.72%. The other country that presented a weight increase was Italy. The increase was of a 0.24%. On the contrary, Germany presented a decrease of a 2.97% and France a decrease of a 1.94%.

If we consider now the total weight variation from 2005 to 2014, we can appreciate that Spain presented an increase of a 1.52% of its weight on the total and Italy presented also an increase of a 0.26%. On the contrary Germany presented a weight decrease of 2.79% and France had a tax weight diminution of a 1.32%.

OTHER TAXES. CONTRIBUTION TO THE TOTAL TAX REVENUES (%)			
	2005	2010	2014
Spain	2.18	3.48	2.92
Germany	0.76	0.79	0.89
France	9.99	9.38	9.92
Italy	7.87	6.03	6.16

PERCENTAGE VARIATIONS			
	(2010 - 2005 Variation)	(2014 - 2010 Variation)	(2014 - 2005 Variation)
Spain	1.3	- 0.56	0.74
Germany	0.03	0.1	0.13
France	- 0.61	0.54	- 0.07
Italy	- 1.84	0.13	- 1.71

Charts 27. Other taxes, contribution to total tax revenues

Source: own calculation with OECD data (<https://data.oecd.org/>)

Finally we have the information of the percentage variations of other taxes weight on the total tax revenues from 2005 to 2010. Analysing the weight variation from 2005 to 2010 we can see an increase of 1.30% in Spain and a light increase of a 0.03% in Germany. On the other hand, France presented a decrease of a 0.61% and Italy had a weight decrease of a 1.84%.

If we compare the variation of other taxes contribution to the total, from 2010 to 2014 we can appreciate a weight decrease of a 0.56%. The other three countries presented an increase of their weights on the total. In Germany there was an increase of a 0.10%, a 0.54% in France and 0.13% in Italy.

Analysing the general situation from 2005 to 2014 we can observe a weight increase for other taxes in Spain of 0.74% and in Germany a 0.13%. On the contrary France presented a decrease of its weight of a 0.07% and Italy presented a decrease of its weight on the total of a 1.71%.

General comment:

- First of all we must consider that the chosen years are a sample of the main periods of the last economic years. We have chosen 2005 because it is a couple of years before the beginning of the great recession(so last years of housing bubble), 2010 because it is an intermedium year during the great recession and 2014 it is a year after the crisis and it's considered a "recovery year". Due to that fact it would be expected that the weight of each tax on the total taxation was different according to that.
- Analysing the different periods we can find and recognise the economic measures imposed by the governments during these years and also the economic changes produced by the great recession and the economic oscillations.
- We can clearly observe that in Spain there was a quite important growth of the importance of VAT on the total tax revenues for the period 2010 to 2014.

Concretely this tax weight increased a 5.72%. This growth was produced because of the taxation increase of this tax. The VAT rates were increased in 2012 by the Spanish political party PP that presented a reform. The effects of this reform can be seen in the importance of this tax on total tax revenues.

- In 2007 there was a Personal Income Tax reform and the expected results were a decrease of the tax weight due to the reduction of the taxation rates. On the contrary, we cannot appreciate these effects in our data, because the weight variation from 2005 to 2010 is positive.
- We can see that Spain has suffered changes in its tax structure during these years. In 2005, 2010 and 2014 the two first positions were occupied by VAT and PIT respectively. In 2005 and 2010 the third position of the tax structure was occupied by CIT but in 2014 tax on property passed to be more important than CIT.
- One remarkable fact is the weight increase to the total of Personal Income Tax in Spain. In 2005 it represented a 27.24%, a 36.06% in 2010 and a 34.08% in 2014. (As we have seen, this represent an increase of 8.82% in 6 years (2005-2010) so it's an outstanding figure.

On the other hand, from 2005 and 2010 VAT decreased from 41.91% to 37.71%. This weight structure's change can explain the difference of tax on personal incomes.

- The contribution of Corporate Income Tax to the total tax revenues also suffered an important decrease between 2005 and 2010, it concretely decreased from 16.05% to 11.86% respectively. This important diminution can be explained by the economic crisis and the housing bubble occurred during these years.
- Germany tax structure has not been seen altered during the three analysed years. Their tax structure, follows that order: Value Added Tax, Personal Income Tax, Corporate Income Tax, tax on property and other taxes.

It has to be emphasized that the VAT's weight in 2005, 2010 and 2014 is almost a 50% of the total tax collection and the weight of personal incomes tax is around the 40% in all the years.

This country has the most stable tax weights of all analysed countries.

- It must be considered that in Spain during the worst crisis years (between 2005 and 2010), VAT and PIT increased their weights to the total and the only tax that suffered a decrease of a 1.52% was the CIT.

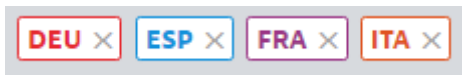
- France has neither altered its tax structure. In the three years its tax structure has kept the following order: VAT, PIT tax on property, other taxes and CIT. So the remarkable fact of this country is that the other taxes contribute more to the total revenues compared with the contribution that CIT does.

France also has a very stable distribution of weights during the three years. The remarkable fact of this country is that Tax on property is the third most important tax in their total tax revenues.

- In the case of Italy, the most remarkable fact is that the tax on property is the less important tax weight of the four analysed countries. This tax occupied the 5th place in 2005 behind other taxes.

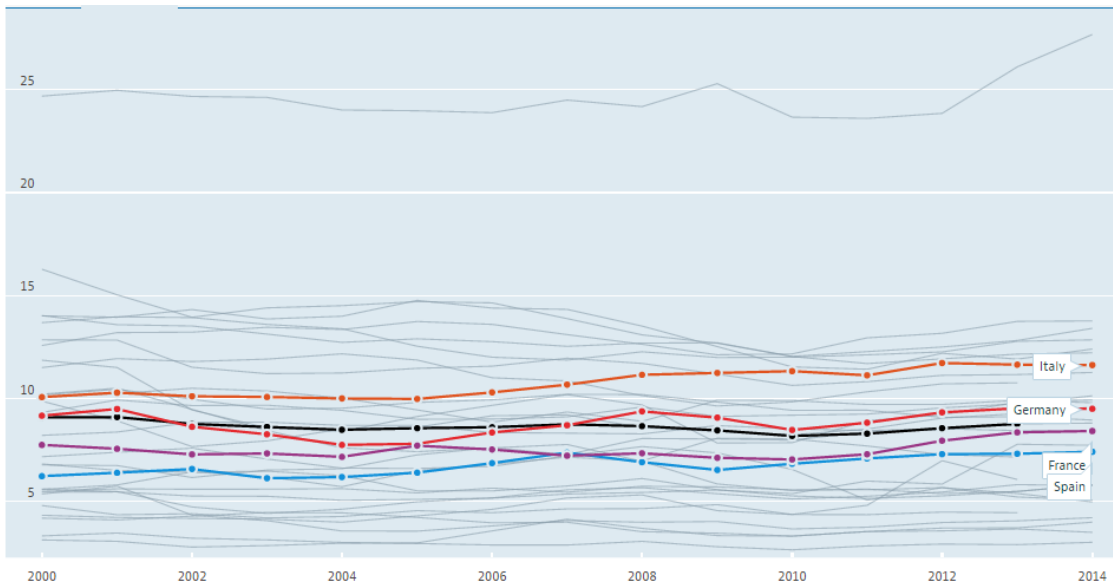
On the other hand, the three first positions have followed the same structure in the three years. This structure is the following: VAT which occupies the first position, PIT occupies the second position and in the third place is for CIT.

So far, we have seen the contribution that each tax has on total tax revenues. Now we will see a simple visual comparison for the same countries, but now we are going to see for each tax which percentage represents of total GDP.



In the four following graphs, there will be represented Spain in blue colour, Germany in red colour, France purple colour and Italy orange colour. Furthermore, in black colour we have represented the OECD average.

Personal Income Tax (% of GDP)

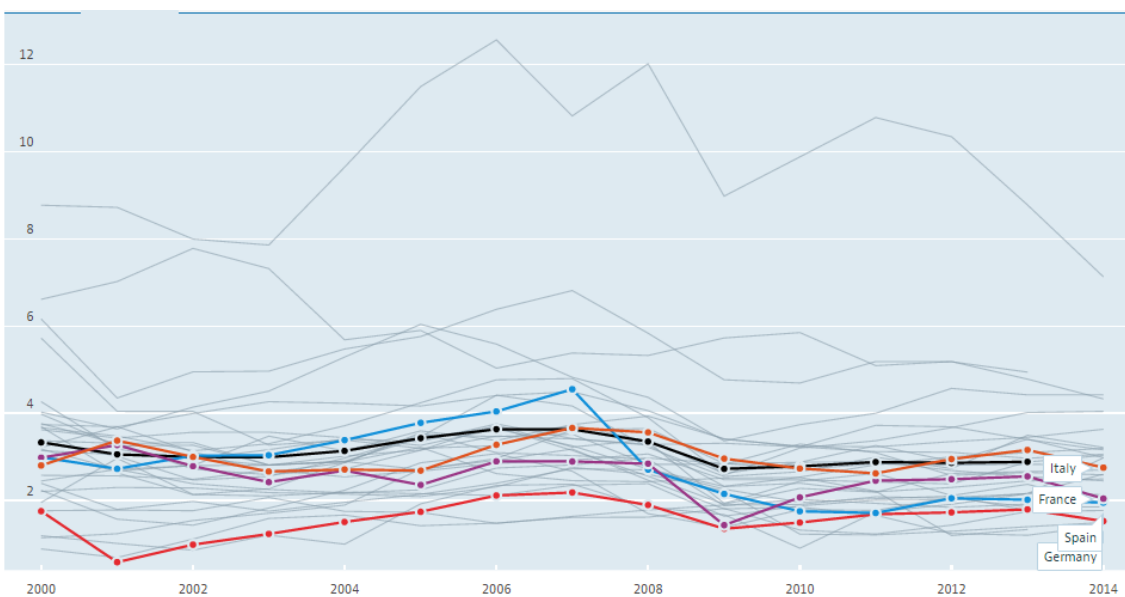


Graph 6. Personal Income Tax (% of GDP)

Source: OECD data (<https://data.oecd.org/>)

As this graph shows, Spain has never been able to collect for PIT the same level (in percentage of GDP) as the OECD average. Spain has had always lower tax revenues for PIT than Italy, Germany and France. The only exception has been in the last year of “housing bubble miracle” (2007) where we can see that Spain has more or less the same level as France, but always very far from the OECD average.

Corporate Income Tax (% of GDP)



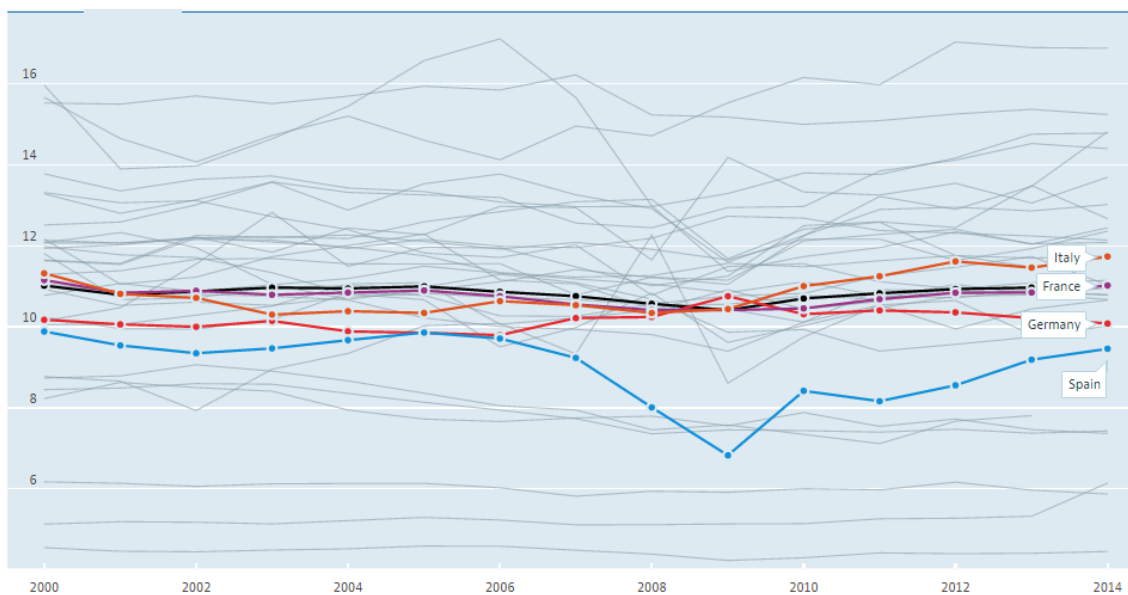
Graph 7. Corporate Income Tax (% of GDP)

Source: OECD data (<https://data.oecd.org/>)

The case of CIT is the most remarkable one. We can observe (in blue colour) that Spain, during the years 2002 and 2007 has collected, in percentage of GDP, more than the OECD average (and in this case more than Italy, France, and Germany). The revenues for CIT arrived in 2007 at a maximum level, being higher than the 4% of GDP. After this unexperienced period, we can see that between 2007 and 2008 the tax revenues passed to be so much higher than the OECD average, to be very lower than this in only one year. After 2007 we have been always under the OECD average and under Italy and France.

Finally, another remarkable case is that, CIT revenues in percentage of GDP in Spain had always been higher (2000-2014) than the German ones.

Value Added Tax (% of GDP)

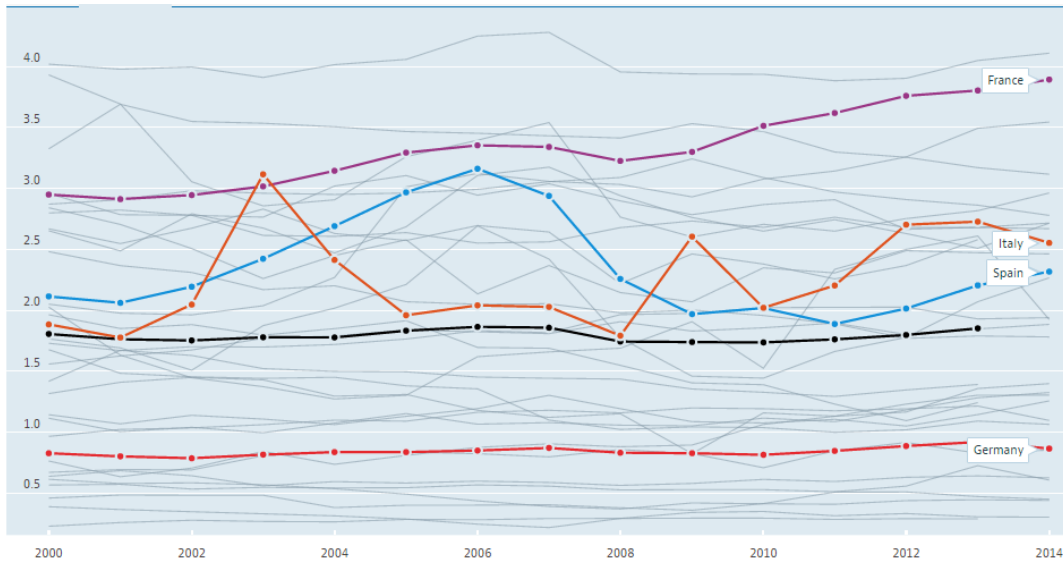


Graph 8. Value Added Tax (% of GDP)

Source: OECD data (<https://data.oecd.org/>)

Focusing on VAT, we can observe that during 2000-2014 Spain tax revenues in percentage of GDP had been always so far from the OECD average and the other three analysed countries. We must highlight that if the difference between those figures was around one percentage point during 2000 and 2006, but from 2007 to 2009 Spain experienced a very important decrease of this figure. The VAT tax revenues in 2009 were 7% of GDP whereas the OECD average was little bit higher than 10%. This means a reduction of 2 percentage points of GDP in two years.

Tax on Property (% of GDP)



Graph 9. Tax on property (% of GDP)

Source: OECD data (<https://data.oecd.org/>)

Finally we will analyse the case of Tax on Property. This is the tax that is better situated when we compare it with other neighbouring European countries.

The most remarkable of this graphic in case of Spain, is the important increase that this figure experimented between 2001 and 2006. The collection of Tax on Property as a percentage of GDP passed from around 2% in 2001 to be more than 3% in 2006. From 2006 on, this percentage has been declining year by year up to 2011. Since 2011 seems that this figure is being recuperated but is very far from 2006 level.

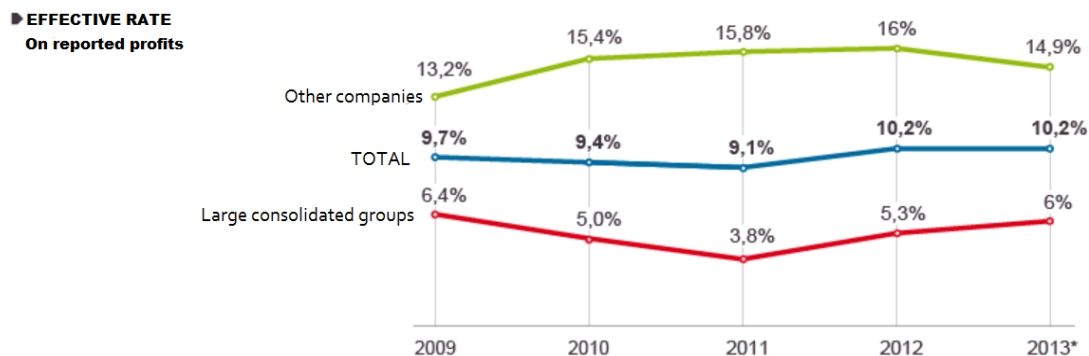
4. Main problems of the Spanish Taxation System

a. Large number of fiscal benefits

One of the most important problems of the Spanish tax system is that in many taxes, even though they have elevated tax rates, the effective tax rates are much smaller. This is due to the big existing quantity of deductions and exemptions that this system has. With all this exemptions and deductions, what the State is finally collecting by taxes is a very lower quantity that the one that the rates determine.

The tables that we have seen in the “General view of taxation system” point of this work shows us the paradox that we live in Spain. That is to say, as we can appreciate, that Spain counts with a maximum rates of each tax much higher than the European average in many cases, but the tax revenue (in this table’s case, for the year 2014) we can see that it remains very underneath of the European medium tax revenue. Is for this reason that this is called “Spanish Paradox”.

If we look at the example of the Corporate Income Tax, we can use this graphic to observe how deductions and exemptions affect to the total revenues of it:



Graph 10. CIT effective rate

Source: “El País” newspaper

http://elpais.com/elpais/2015/08/01/media/1438453014_283749.html

About Corporate Income Tax, the fiscal benefits are ones of the most questioned. The nominal rate was 30% in 2013 but we have actually seen in the graphic that both large consolidated groups and other companies paid much less.

According to the last tax revenue memory in Spain, major business groups paid for Corporate Income Tax an effective rate of 6% for their benefits in 2013. The nominal rate of this tax ascended to 30%, but due to the wide range of deductions and fiscal benefits this have been able to minimize their fiscal charge.

As it is seen, the other companies pay more than twice that major business groups (a 14.9% in 2013), but we can also see that they pay so much less than the corresponding 30%.

A part from that, almost all major business groups have access to law firms that offer a fiscal consultancy in a way that they can place their benefits in fiscal paradises to avoid the taxation in Spain.

Finally, another important fact is that Spain counts on three “collective inversion societies” in which bigger fortunes and multinational take advantage of legally to reduce their fiscal charge. These are SICAV, SOCIMI and ETVE.

2016 prevision

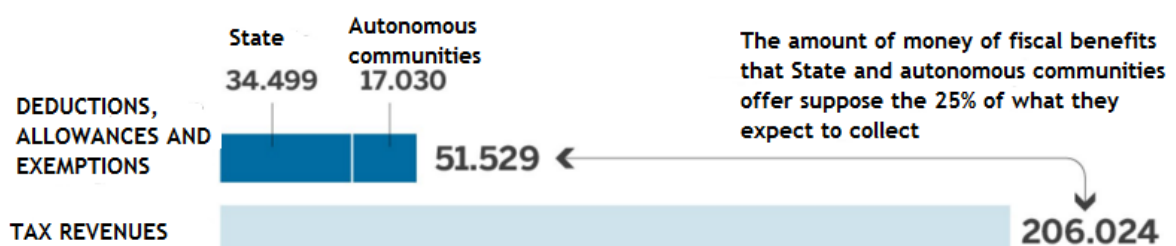
As a study reveals, the Spanish taxation system is full of gaps wherein it escapes an amount of money that is equivalent to the 25% of the total tax revenues. Exemptions, deductions and allowances, will be higher than 51.500 million euros in 2016 as reflect the State and Autonomous Communities’ budgets. Central Administration offers 34.500 million euros in fiscal benefits and the autonomous communities other 17.000 million. This incentives, and adding fiscal fraud (and other analysed factors) make that total tax revenues in Spain remains lower that the most countries in the EU.

The 51.500 million euros are equivalent to the 5% of Spanish GDP (that is the similar percentage of public deficit that Spain presented in 2015).

The VAT is the tax that present more problems. The existing reduced, super reduced and other special regimen elevate to 19.240 million euros the fiscal benefits in this tax. A part of this the general type of VAT is 21% whereas the average medium real rate is in 15.4% as the Tax Agency states.

FISCAL BENEFITS OF STATE AND AUTONOMOUS COMMUNITIES

2016 BUDGET (IN MILLION EUROS)



Graph 11. Fiscal benefits of State and Autonomous Communities

Source: own calculation with data from AEAT.

About the Property Tax, a revision in the regional budgets shows that the communities have exercised its taxation competencies establishing a range of exemptions, deductions and allowances. Regions have established deductions, allowances and bonuses on heritage transmissions for a value of 6.001 million Euros, more than what they collect for this tax.

There is consensus between the experts in the need of reforming this tax to avoid the big difference on the treatment received in each Autonomous Community. For example, Madrid has an exemption of 99% on this tax when it's applied on direct family. This suppose a cost of 2.558 million euros as figures in the autonomic budgets.

b. Few will to fight against fiscal fraud

Although the large number of reforms that affected last years in Spain, and the reforms entrusted to improve the Spanish taxation system (as the simplification of PIT and CIT, the elimination of some deductions in the two tributes), technicians of Tax Authority continue claiming more resources to fight against fraud. According to GESTHA, this complains about the fact that in Spain counts, as a country, with few willingness to fight against fraud and do a more just, equal and efficient taxation system.

In this direction, GESTHA proposal is a deep reorganization of the Spanish Tax Agency and the responsibility of public officials to fight against this problem. Their command is that AEAT raise the number of public officials aimed to pursue fraud, because as OECD data shows, this is a big lack in Spain. Spain only counts with one public official for every 1.928 contributors.

If we compare this figure with other countries, we realize that it's realist and serious. France counts with one public official for 860 contributors, Germany one for 729 or for example the one for 551 in Luxemburg.

On the other hand, GESTHA also complains about the fact that the resources used to improve this situation are not targeted to big fortunes (that are the ones that entail more quantity of fiscal fraud), but are targeted to the identification of the "smaller" fraud. This is due to a lack of political willingness. As the president of GESTHA says, Tax Agency is dedicated to pursue the fraud of self-employed workers and PYMES.

This situation of “letting do” to big fortunes has boost some criticism, although this were muted due to the fact that this big fortunes do what they do “legally”. It means that they can reduce their fiscal charge in a legal way. Everybody knows that this are doing this activities but is very difficult to being stopped.

Inspectors, professionals and experts claim more weapons to fight against fiscal fraud. As Cruzado says (the president of GESTHA) the nowadays policy of Spanish Tax Agency focus on minor quantities instead of potentiate the inspection of big fortunes. Cruzado insists on pushing the delegation of big contributors (the delegation entrusted on companies and heritage fraud). He purposes different measures to reduce it like: restricting to 2.500 euro cash payments, reducing to 50.000 euros the doorstep to consider fraud as fiscal offence, and others.

Cruzado also claims a greatest coordination between all the tax administrations in Spain.

Fiscal fraud fight evolution

We could see that in 2015, despite growing a 3.2%, it was closed with a deficit of 5.1% of GDP. Then the press released the Panama papers, which revealed the name of many businessmen, politicians and athletes that have offshore companies in tax havens. It is difficult for us to assimilate the need of further measures to close the deficit, while we see how certain taxpayers manage themselves to escape the treasury. For this reason, we wanted to see the results of the fight against tax fraud in recent years.

As seen in the chart below, after getting the 10.000 million euros in 2010 by the measures imposed to fight against fiscal fraud, the collection was maintained between 10 and 11 billion over the next three years. As we can see, it has increased very significantly in the last two years, till exceed 15.000 million euros in 2015, according to data from the Tax Agency.

Evolution of the results obtained due to the fight against fiscal fraud:

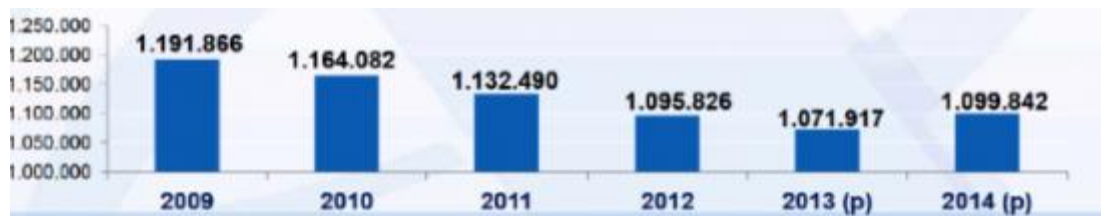


Graph 12. Evolution of results obtained due fiscal fraud fighting

Source: Tax Agency

This tax collection increase maybe has relation with the general evolution of the economy. The end of the recession and the growth rate of the economy would have produced the revenues increase by the tax collection activities of the Tax Agency. However, we can not forget the delay of the actions to fight against fiscal fraud. So if we look at the taxable incomes' evolution during the same period, we can see that there is no relationship between the fight against fraud and the evolution of the tax bases. We must remember that the taxable income of a year are the ones which result in fraud revenues the following year. Surprisingly tax bases haven't changed a lot.

Evolution of the tax bases of the main taxes:



Graph 13. Evolution of the main taxes taxable bases

Source: Tax Agency

So now we must analyse the Tax Agency measures to fight against fiscal fraud.

The Tax Agency action against tax fraud is divided into two major measures:

- The tax inspection actions, such as:
 - o The verification of compliance with the limitation of cash payments of 2.500 euros, which has opened more than 1.300 disciplinary proceedings
 - o Computer Audit actions and the development of new Internet tools
 - o Face-to-face visits to fight against non-observed economy
 - o Control of system modules
 - o Investigation of financial transactions
 - o Customs controls to fight against smuggling
- The diminution actions from returns, during rectification of self-assessments presented by the taxpayer.

In 2012 there was adapted the Law 7/2012 of financial regulation for the intensification of actions to fight against fraud, as well as the Special Plan against the informal economy. In data collection from the fight against tax fraud it have only improved 4% annually, on average.

So we can see a positive trend of the Ministry of Finance against tax fraud, but we can also see what we can expect about these measures. In a context of social anger respect

to fraud, there is the political need to find a tax revenues' source alone to sustain their promises of social spending without increasing taxes.

The fight against fraud should always be a priority of economic policy, especially in a situation like the one we are living nowadays where governments ask to the taxpayers to do efforts in order to achieve the public deficit goals.

c. Inequality in tax payments

The growth of salary gap between rich and poor people in Spain is a reality that nowadays nobody can deny. The same happens with the increase of millionaires in Spain (fortunes that exceed the million euros) and this is happening while big fortunes tribute few quantities. On the other hand, the number of poor people in this country has been duplicated during and after the crisis.

The attitude of multinationals and big fortunes is doing a huge damage to the tax revenues. These are doing complex financial engineering operations to avoid the taxation in Spain.

SICAV

As we have seen before, in Spain the Corporate Income Tax is levied with a rate of 30%, one of the highest in Europe. This means that companies tribute a bigger quantity than companies in other countries. This is the reason of why this companies try to relocate their benefits.

According to this, big fortunes in Spain use the advantages that SICAV offers.

SICAV¹⁹ is a collective inversion instrument. Its objective is the acquisition, possession and administration in general of transferable securities and other financial assets.

These are regulated in 35/2003 law. This defines SICAV as investment societies with a modality of Collective Investment Institutions that adopts a form of S.A.

Requirements to create a SICAV

In order to create a SICAV there is a set of important requirements. This are the following:

- Number of shareholders: At least 100
- Minimum initial capital: 2.400.000€
- There are some existing limitations
 - Control coefficient: The same entity is not able to emit or endorse more than 5% of securities.

¹⁹ In Spain SICAV “*Sociedad de Inversión de Capital Variable*”.

- Diversification coefficient: Not more than 5% of the invested asset in securities of a same entity. This limit is amplified to 10% provided that the total of the inversions of the SICAV isn't exceeding the 40% of the asset of this SICAV.
 - Inversion coefficient: At least 90% of the asset will be invested in transferable securities admitted to quotation in officially organized and recognized markets.
 - Liquidity coefficient: Has to be at least 3%.
 - Variable capital has to be between the minimum and the maximum statutorily established.
- Tutelage and control of CNMV²⁰ and "*Dirección General del tesoro y Política Financiera*".
 - Have to register and communicate to the CNMV: Annual report, annual accountancy, management report, relevant facts and significant shares.

Advantages of SICAV

-Dividends, interests and other capital returns tribute at a fixed rate of 1% (instead of taxing at general rate for companies that is a 30%).

It should be added that obtained capital gains tribute at a fixed rate for capital rents of Personal Income Tax. This means:

- 20% for the first 6.000 annual euros
- 22% between 6.001 and 50.000€
- 24% from 50.001 euros and on.

In addition, once the SICAV returns the initial capital invested to its owner, this tributes like other investors.

- A second advantage lies on capital reductions. This means that SICAV owners can take money of its fund without taxing until the initially invested quantity is not overtaken (because it's considered that what is taken is capital, and not capital gains obtained through inversions of the SICAV).

The most remarkable fact of this is that no other investment instrument allow this. For example, if someone wants to invest in an Investment Fund and wants to take a quantity of money , this will pay since the first euro of capital gain, independently whereof this quantity is minor in comparison with the one invested initially.

²⁰ "*Comisión Nacional del Mercado de Valores*"

- Third advantage is the liquidity that SICAV offers to their owners. As SICAV quote to stock market, concretely in MAB²¹ shares can be compared and sold in any moment.

-The most important advantage is that those investors that have absolute control on SICAV can differ indefinitely the taxation to this tax opting to not distributing dividends and reinvesting inside the own SICAV, with the objective of increasing heritage.

Criticisms to SICAV

The main criticism to SICAV is their manipulation. Frequently this are used by big investors and heritages as a legal tool to evade taxes, instead of being an investors association that wants to reduce costs in their heritage.

In this way, there are complaints about the fact that even if being a Collective Investment society, these are usually controlled by a unique person or family. The 99 remaining shareholders are called “mariachis” and in most of the cases are people that only contribute with their name to the SICAV and they realize symbolic contributions.

Consequently, they don't have any control on the investments. This is the reason why critics say that this goes from a collective instrument to an individual tool.

If we take one Spanish example, we can think of “Kerad 3 Invest” SICAV owned by *Gerard Piqué*²². This SICAV have 122 shareholders, but the 84.2% of its heritage is controlled by a unique person. In 2014 this society was forced to raise the number of shareholders because CNMV warned to do it.

Critics say that SICAV are also used as a tool of outflow of capital with a lack of transparency to other countries, in special fiscal paradises. The most frequent act when they move their total investment heritage to other nation is to send it to a fiscal paradise where nothing is taxed directly, and the complex aspect of confidentiality avoid that different country Treasures can be able to control the inversion and the realized movements in this societies.

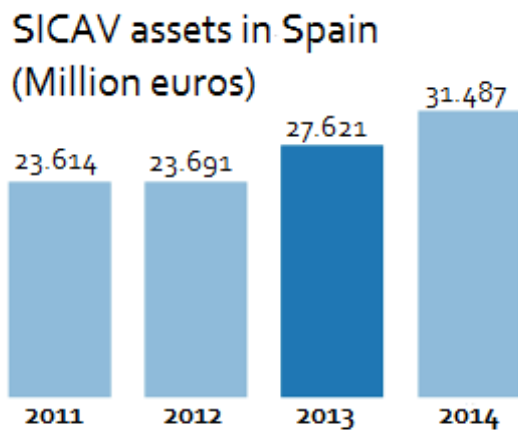
SICAVs in Spain

The quantity of SICAVs in Spain is increasing year by year. According to CNMV the number of SICAVs increased a 6.5% during 2014, arriving to 3.226 this year. Furthermore, the heritage that they administrate was also increased a 14%, arriving to 31.486,8 million euros in 2014.

²¹ Mercado Alternativo Bursátil

²² “*Futbol Club Barelona*” player

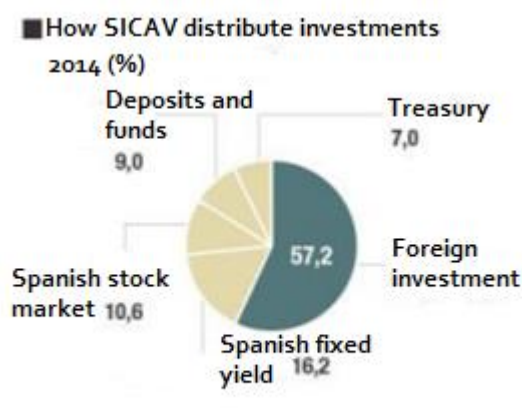
In this graphic we can observe the evolution that has suffered the heritage of those SICAV:



Source: CNMV

Graph 14. SICAV assets in Spain

In addition, if we want to see how the investments are distributed the total of Spanish SICAV we can use this graph:



Graph 15. How SICAV distribute their investments

Source: Cinco Días newspaper (www.cincodias.com)

As this sector graph shows, more than a half of Spanish SICAV investments are abroad (57.2%). Secondly, where they invest more is in Spanish fixed yield (16.2%), followed by the Spanish organised stock market and other investments.

The biggest SICAVS in Spain in terms of heritage (and 2015 data) are the following:

1. Torrenova de Inversiones (March family)
2. Morinvest (Alicia Koplowitz)
3. Cartera Bellver (March family)
4. Soandres de Activos (Sandra Ortega, Amancio Ortega daughter)

5. Elitia Invest (Jorge Gallardo Ballart)
6. Cartera Immobiliària (Botín family)
7. Allocation SICAV (Del Pino family)
8. Soixa (Antonio Hernández, “Ebro foods” president)
9. Chart Inversiones (Del Pino family)
10. Herprisa Inversiones (Pronovias owners)

So there are also criticisms in the fact that they invest a large part of their heritage abroad. For example, SICAV “Elitia Invest” linked to Gallardo Balart family²³ is the one that has more heritage abroad (95% of it invested abroad).

The biggest one in Spain, linked to March family, has for example a heritage of 1.234 million euros and 5.445 shareholders. The second one in terms of size, “Morinvest” owned by Alicia Koplowitz has a heritage a little bit inferior to 5000 million euros. Therefore, we can conclude that this SICAV through invest their heritage abroad are avoiding to tribute big quantities of money.

SOCIMI

SOCIMI²⁴ are those quoted limited companies that, accomplishing with the established requirements, have as a company target the development of any of this activities:

-The acquisition and promotion of immovable property with urban nature for its leasing, including also rehabilitation of edifications in the terms legally established.

-The property of capital shares of other SOCIMI and other entities not residing in Spanish territory that have the same company objective (and that are subjected to a similar regime established for SOCIMIs). This means, the societies that their company objective is the acquisition of immovable property of urban character for its leasing and that are subjected to the same regime in respect of mandatory policy, legally or statutory (and the same inversion requirements).

-The property of stock or shares in Collective Property Inversion Institutions are regulated in 35/2003 law of Collective Inversion Institutions.

²³ The family that founded “Laboratorio Almirall”.

²⁴ “Sociedades Anónimas Cotizadas de Inversión Inmobiliaria”

SOCIMI are the Spanish version of Real Estate Investment Trust, an investment instrument born in the United States that subsequently was transferred to Europe. In the case of Spain, those were approved through the 11/2009 law in 2009.

In addition, SOCIMI quote in MAB²⁵, and hence, those have the same benefits as the one we have explained in the previous point of SICAVs.

Requirements to create a SOCIMI

The currently requirements to create a SOCIMI in Spain are the following:

-Between the changes done in the 2012 reform, it's highlighted the possibility to create a SOCIMI with only one property and a minimum social capital of five million euros (Before this reform, the minimum capital was 15 million euros).

-In order to be considered a SOCIMI, a society need to have at least the 80% of their assets considered as qualified assets. They are considered qualified assets:

-Immovable property with urban nature (properties, locals, hotels offices, industrial warehouses, shopping centres...) acquired or promoted to be leased.

-Fields acquired intended to leasing, whenever that the promotion is initiated in the three years after the acquisition.

-Shares in other SOCIMI, REIT.

-Another requirement is launching the society in the MAB, accomplishing all the requirements of that, because it's necessary that this societies quote on it.

-Immovable property that integrate the asset has to remain leased at least during 3 years.

-Shares and partnership interests in capital have to remain in the asset also 3 years from its acquisition.

- It will be obliged to distribute dividends, once accomplished the appropriate commercial obligations and once obtained the appropriate benefit, as follows: They will distribute to their shareholders the 10% of benefits from dividends or partnership interests as benefits of other SOCIMIS. At least 50% of benefits derived from the transmission of immovable property and partnership interests and shares, and at least 80% of the other benefits obtained (basically the benefits obtained by leasing rents).

²⁵ "Mercado Alternativo Bursátil"

Fiscal advantages of SOCIMI

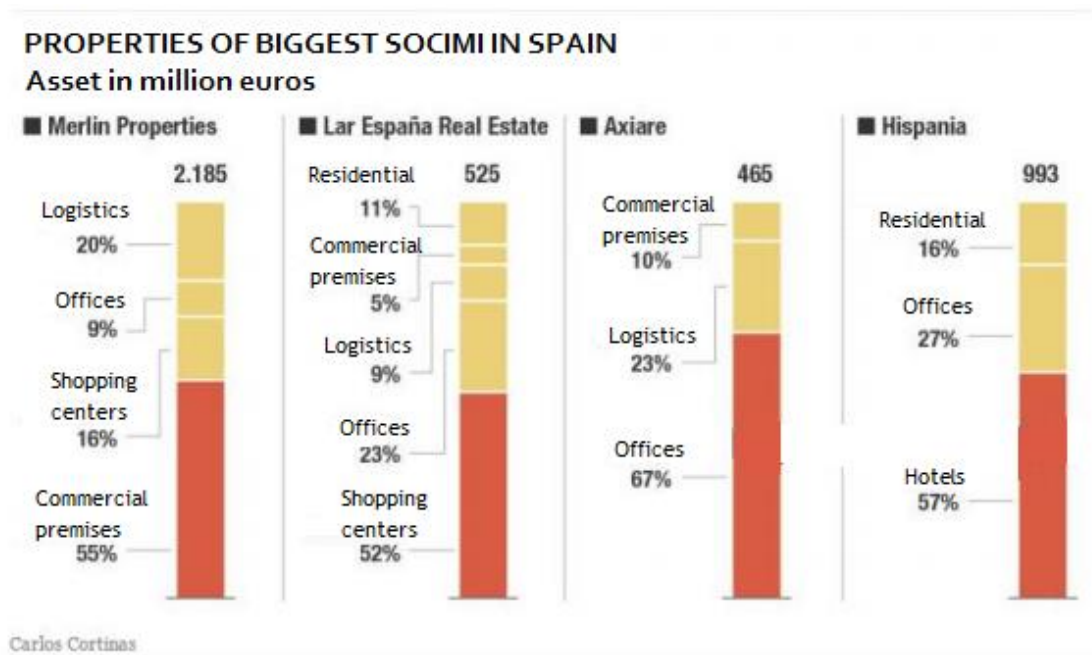
- Since 2012, SOCIMI taxation on Corporate Income Tax is 0% for rents that come from the development of their activity.
- SOCIMI have a strong bonuses (95%) in Tax on Property²⁶ in terms of house acquisitions, and areas for housing promotion intended to leasing.
- Constitution operations and capital increase of SOCIMIS are exempted on society operations modality of Tax on Property.

Socimi in Spain

In terms of Spain, the big four SOCIMI in terms of asset are in descending order:

- Merlin Properties
- Lar España Real Estate
- Axiare
- Hispania

The following graph shows how this big SOCIMI divide their properties.



Source: Cinco Dias

Graph 16. Properties of biggest SOCIMI in Spain

²⁶ "ITP y AJD" in Spain

The biggest SOCIMI in Spain in terms of asset volume, Merlin Properties, counts with 2.185 million euros in different properties. A large majority of those are commercial centres (55%). A part from this, through “*Cartera Tree*” control 880 BBVA²⁷ offices. These figures show that this societies can invest in a broad range of properties.

Main criticisms to this SOCIMI are linked to the fact that this are by big companies to avoid taxation to Corporate Income Tax rate of 30%, and only pay taxes for dividends that are paid to shareholders.

To take an example, we will explain the case of “*Pontegaeda Inmobiliária*”. This is the name that receive the platform for *Inditex*²⁸ patrimonial investments, and owned by Amancio Ortega. He is working on a project to convert “*Pontegaeda Inmobiliária*” in the biggest SOCIMI in the actual market. The accumulated asset portfolio during the last 13 years reach a market value of 5.000 million euros.

Therefore it’s just obvious that the main criticism are focused to the fact that richest people pay lower taxes than the poorest. This is only one of the many examples about what big fortunes are able to do in order to reduce their taxation.

ALTERNATIVE STOCK MARKET

Both SICAV and SOCIMI have the obligation of quoting on Alternative Stock Market²⁹. This fact implies that this societies take advantage of that. The main advantages that SICAV and SOCIMI have quoting on MAB are the following ones:

- Allow the society to endow liquidity to shares in an effective way.
- Have a better transparency: Immediately and wide dissemination of public and compulsory information in the established regimen by CNMV, through its system and specialized communication media.
- The transmission of shares is made in a simple, secure and efficient way. In addition to this, MAB endow the transmission with security.
- Once the shares are negotiated, MAB’s system is in charge of the posterior administrative tasks (liquidation, compensation and register), including also the elaboration and the made available of information related to prices and liquidate values that supervisory authorities demand. So according to this, quoting on MAB eliminates

²⁷ “Banco Bilbao Vizcaya Argentaria”, Spanish bank

²⁸ Inditex is one of the biggest fashion distribution groups that operates in 87 markets.

²⁹ MAB in Spanish “Mercado Alternativo Bursátil”

the need of organizing the SICAV or SOCIMI with a provision of technical and human for:

- Liquidate the values associated to purchase-sales contract. The liquidation will be realized by Iberclear³⁰
- Designate an entity that is in charge of leading the “*Registro de Anotación en Cuenta*” as a formula to represent the shares.
- Organising the updates and maintenance of “*Libro de Registro de Accionistas*”, due to the normative character of SICAV and SOCIMI shares.
- The supervision of CNMV for SICAV and SOCIMI that take part of MAB are based on a rules and procedures that are homogeneous and known by everybody.

MAJOR TECHNOLOGICAL COMPANIES

Brussels has announced drastic measures to eradicate those strategies used to avoid taxation and that have a cost of 70.000 million a year. Countries like Italy or UK have just imposed millions of dollars of punishment to Apple and Google. The Spanish Treasury prefers an international concerted solution to apply exemplary sanctions.

Apple announced a new sales record but they also sprayed that they pay very few taxes. The creator of iPhone as almost all major technology and Internet companies use tax engineering background to avoid paying taxes, concretely in Europe.

Brussels wants to take action on the matter and they announced that they will use different strategies in order to force multinationals to pay for the benefits in countries where those benefits are generated and to report profits and taxes paid in each country. There are states that don't want to wait for bureaucracy action and they have decided to act on their own. The most active one is the Italian Government, whose Treasury complained against Google 227 million euros for back taxes' payment between 2009 and 2013. This is not the first step that the Italian's Government has taken. On 30th of December, the Italian subsidiary of Apple reached an agreement with the Treasury to disburse 318 million euros for tax on corporate profits' non-payment of five years.

Likewise, Google has reached an agreement with the British Treasury for which he paid 130 million pounds (172 million euros) in back taxes in the UK between 2005 and 2015. The methods used by Apple and Google in Italy and the UK to evade taxes are the same used in Spain which pay a ridiculous amount of taxes compared to their real benefits.

³⁰ Is a limited company that manage the systems of register, compensation and liquidation of stock values.

The seven major technological groups (Apple, Amazon, Twitter, Microsoft, Ebay, Google and Facebook) declared in Spain a profits of 48 million euros in 2014, for which they paid taxes for 18.3 million euros. Its real benefits were so much higher than those, but they transferred them to foreign companies operating in Spain as commission agents.

Even if the cases of other countries that we have seen above, the Spanish Treasury's has not even opened an inspection to Apple or Google.

The most used hiding places and legal tricks used by big companies are as follows:

- FVCs³¹. Sales declared by tech firms in each country has nothing to do with their real incomes. In order to do that the subsidiaries act as commission of another parent in countries with lower taxes as Ireland or the Netherlands. The subsidiary is taxed only by the minimum commissions for allegedly receives from its parent, the bulk of the incomes and pays minimum rates.
- Apple does not sell almost anything in Spain officially. The iPhone's creator is paradigmatic. In Spain, it operates through two companies: Apple and Apple Retail Spain Marketing. The first manages the network of stores and the second the bulk of sales. But they only billed a commission of 1% of total sales, which is targeted as his holding company a company based in Ireland.
- Multimillion evasion. Brussels estimates that these practices cost taxpayers between 50.000 and 70.000 million euros a year. In Spain, the Treasury has never encrypted lower tax revenues but, for example, Apple says that sales outside his shop only bills 19.8 million as an SME.

PANAMA PAPERS

Panamá papers are the heaviest data filtering reporters of all time. There are dozens of personalities, politicians, artists and athletes from all around the world involved.

Panamá papers is the name which has been referred to more than 11,5 million of internal documents from the law firm Mossack Fonseca which were stolen and given to the german Süddeutsche Zeitung and the International Consortium of Investigative Journalists (ICIJ). These documents reveal personal data, current accounts and confidential hidden information from more than 200,000 offshore companies related with more than 200 countries.

Offshore companies are those registered in a country, which uses to be a tax haven, and there is not any economic or commercial activity performed. These companies are controlled by foreign enterprises or citizens who direct their business in other parts of the

³¹ In Spain: Sociedades instrumentales

world and only use tax haven as legal domicile of the company. Creating this kind of company is not illegal and sometimes it is used by big companies to operate in unstable states. The problem comes when you create these offshore companies in order to hide assets, money from illegal activities or to hide information to the tax authorities of the origin country. In front of these companies it can be shown their real owner or a figurehead.

A society in Panama is mainly used to hide the true owner of a bank account. This account is usually established in a country like Switzerland, Andorra or other places traditionally used to hide money to the Treasury such as Panama. When someone does not want to be known as the owner of an account, it is because that money or comes from illegal activities or has not been declared to the tax authorities of his country. Also these companies are used to launder money in cases of corruption.

These societies are usually created by his advisers: either tax lawyers or private banks specialized in managing high quantities of money. It is unusual that a private person knows these formulas to commit fraud or to contact with an office such as Mossack Fonseca. Among the various methods to reduce the customers' tax incomes, those offer them structures called offshore tax havens. This option is generally accepted by the customers because they prefer not pay anything even they take a huge risk than pay a big quantity of taxes.

The publication of Panamá papers does not imply that the names that appear in them have acted illegally. What allows this information is to know how the offshore companies network operates worldwide and check the unethical and limit law practices that Mossack Fonseca lawyers have been developed in recent years.

In the case of Spain, there is a list of important people affected by Panama Papers:

-Pilar de Borbón: Sister of "Juan Carlos I" and "Felipe VI" aunt. Was the president of the Panamanian company "*Delanterá financiera*". This society was dissolved five days after the proclamation of "Felipe VI" king of Spain.

-José Manuel Soria: Ex-minister for Industry in Spain. Figures in Panama Papers as a director of an off-shore society in 1992.

-Rodrigo Rato: Ex vice-president of Spanish government. He used in 2013 Mossack Fonseca to close two Panamanian companies after take back the 3.6 million that those hide.

-Oleguer Pujol: Is the son of Jordi Pujol (ex-president in Catalonia).

Those are only a sample of a lot of involved important people in Spain.

d. High level of fiscal fraud and underground activity

Fiscal fraud and non-observed economy are two of the most important problems in our country. The trouble comes when these irregularities affect the tax revenues and as consequence, it affects to equity and efficiency.

In addition, the effect on tax revenues causes elevated costs for society. On the other hand it is remarkable that as bigger is the tax fraud and the underground economy, more serious become the tributary systems diseases.

We will deep into this problem in the following part of the essay.

5. Fiscal fraud in Spain

Fiscal fraud is the fraud committed to the Tax Administration secretary in the form of tax evasion or any other irregularity that has as a consequence an illicit benefit or not declared benefit with fiscal repercussions. When this exceeds a determined quantity, this is considered fiscal offence, and this is punishable with deprivation of liberty, whereas minor quantity fraud are sanctioned through penalty fee.

In the area of taxation we know that a substantial fraud affects badly to tax revenues, and as a consequence, to equity and efficiency. The effect on tax revenues has an elevated cost for society in a moment of budgetary consolidation as the one we are living nowadays.

In terms of efficiency, a bigger fraud makes more serious the Tax System distortions because this ends up involving higher taxation rates on the declared bases (and this distortion damages the economic growth).

Fiscal fraud is a very important problem in Spain. This problem ends having an impact to all the population but any government has been able to elaborate a Spanish black economy and fiscal fraud study.

Situation is so alarming that even the UE is becoming aware of what is happening in Spain. European Parliament elaborated a report in 2008 in which they complain about the lack of precise figures of Spanish fiscal fraud. This is why they require a list of fiscal fraud data for all the member States that ensures transparency and serve as a base for national measures against fiscal fraud. They also ask to the Commission to propound an uniform European system of collecting data and of statistical production about fiscal fraud. This way they can evaluate more precisely the real magnitude of this phenomenon.

The report recognize that the estimates about global losses (direct and indirect) of fiscal revenues originated by fiscal fraud are situated in Europe rounding the 200.000 and 250.000 million euros annually.

Although in Spain there's no official study about fiscal fraud, there are other informs, studies or data that shows the magnitude of the problem, and in percentage terms, they quantify Spanish fiscal fraud between 6% and 8% of GDP.

As there are not many studies and estimations of fiscal fraud in Spain and in the rest of Europe we will use some data about non-observed economy, which is much more studied. In order to distinguish both activities it is important to define what underground economy is. We could consider correct the definition provided by the OECD which says that the non-observed economy are activities in the economic sense, they are legal and

relatively hidden to public administrations in order to avoid paying taxes or contributions such as Social Security, to avoid comply with labour standards and other requirements and administrative procedures.

a. Estimation methods of fiscal fraud

There are different estimation methods to calculate black economy, in function of the variables used to calculate it. The most important ones are the following:

-Direct methods

 Surveys and questionnaires

 Tax auditing

-Indirect methods

 Not monetary methods

 Discrepancy of rent and spending

 Discrepancy on labour market

 Methods based in electricity consumption

 Monetary methods

 Relation between cash and deposit

 Transactional methods

 Money demand models

-MIMC Methods³²

Direct methods focus on the opinion of a group of survey respondents whereas indirect methods pretend to estimate the volume of black economy that is a non-observable variable, through the behaviour of other variables that are observable.

This methods pretend to detect anomalies that present different macroeconomic variables respecting to what could be considered their normal behaviour (for example the relation between cash and deposits...).

In terms of MIMC methods this consist on using an equation that relates a non-observable variable with any indicator of the same variable. With this we obtain coefficients that describe their relation.

Thereupon, black economy (non-observable variable) is determined through a group of observable variables (that are the causes) and impact on other observable variables that are the indicators.

³² Multiple indicators, multiple causes

However, we must emphasize that there is no consensus on the best way to quantify fiscal fraud.

Moreover, in many cases, policy makers have considered that knowing the tax fraud's magnitudes can have a demoralizing effect. Therefore some inspectors have noted *that the establishment of an international methodology that allow to make national and international comparisons over the fraud level, not subject to political conditions (...) to determine that the extent of tax fraud is a problematic issue would be desirable, as there is no generally accepted methodology and concrete analyses carried out in various countries (...) most OECD countries have put in the background quantitative estimates on tax fraud, or have kept as reserved studies.*

b. Quantification of fiscal fraud in Spain

The Personal Income Tax is the first key to know how the highest incomes are tax favoured. According to Gestha's General Secretary, Jose Maria Mollinedo *"everything is designed to promote the financial business, for the tax duality that exists in all OECD countries"*.

Taxes are focused more on the work than to penalize speculation in the stock market. Labour incomes are taxed up to 45%, even a 49% in some communities. But capital income tax a 19% or 21% if they exceed 6.000 euros.

"If I have control of my company I can handle this duality as I want. I decide to have income from capital (through dividends, for example) instead of a salary," explains Luis del Amo, director of the Registry of Economists and Fiscal's consultants (REAF).

Variable capital investment's companies are the privilege of most criticized taxation. A corporation that contributes to the state a 1% of their profits, compared with 30% or 25% as SMEs³³ do.

In addition, the legislation supports that the Sicav have *"departments, which can be up to five in each,"* explains José Maria Mollinedo. Five different fortunes constitute a Sicav and it is only required a minimum of 480.00 euros investment each one.

According to Organization of Tax Inspectors's General Secretary, Francisco de la Torre, the foundations had more interest when Inheritance Tax, which is now subsidized between 96% and 99% in most applied autonomies.

Foundations are very useful to prevent known who is behind the money that has been deposited on behalf of the legal personality. In addition they can be constituted in tax

³³ Small and medium enterprises

heavens, where it is not necessary to state the foundation's activity and avoid paying taxes.

Heritages are used as companies that own property, they have now become very important to avoid taxes. *"Although the heritage has to report the ownership of the shares, the owner will not be affected by the revaluation of property values,"* explains Mollinedo.

As Gestha's General Secretary says, *"The gains remain dormant until they sell the assets, and they avoid paying taxes, there is no prejudice to the family heritage of judicial responsibilities claims for management of other companies"*.

As De la Torre argues *"When you ask about these movements, banking refers you to its havens' subsidiaries, which do not give it. One of the matters we've always asked is that or havens' use is prohibited or it is necessary to force banks to give the same information about those subsidiaries which give their business in Spain"*.

Delocalization is another way of not paying taxes. Pretending another residence, dissemble and pretend not to live there. The Tax Agency investigates every year this quite common fraud through a Delocalized Plan. Some citizens allege fraudulently live in countries like Andorra, while actually they are residing in Spain, which also develop their economic activity.

In 1998 the fiscal fraud Commission in Spain presented a study with data collected from 1976 to 1986. The used method was a comparison between the two rents declared for "Personal Income Tax" and the National Accounting.

The obtained results were that the declared rents supposed a 55.10% of the total obtained, and the most declared rents were the work ones. In contrast, the less declared rents were the not wages ones. Therefore, is in the less declared rents where the most quantity of fraud take place, on not wages rents.

It should be noted that from 1979 to 1986 there was an increase of the tax obligation payment. In 1979 there was a 52.20% of accomplishment of tax obligations and in 1986 a 64.10%. It is important to say that this study is one of the most important one about fiscal fraud.

In 2011 Arrazola published a study using a MIMIC method from 1980 to 2008. He could appreciate that the fiscal revenues decreased between a 5.40% and a 5.60% of the total GDP. If all the fraudulent activities had been declared, the taxation could be reduced less, between a 4.50% and a 4.80%.

Between 2000 and 2011, GESTHA published a study using MIMIC method with which he discovered that the irregular economy supposes a waste of 88.000 million euros.

In 2012 Almunia and López Rodríguez published a study with numbers from the big companies' detection unit, in which they could see that big companies use to reduce their declared incomes in order to avoid any kind of supervision. What is more, CES (Economic and Social Council) noticed that there is a loss between a 0.17% and 0.95% of the GDP with these big companies' practices.

Later, in 2013 CES did a study with OCDE and Eurostat's macroeconomic information which could quantify the fiscal fraud around 6% of GDP. Other studies quantify it around 8%.

As Financial Studies Foundation could observe in 2013 thanks to an estimation of the collection waste from non-observed economy and taxation, the abolishment of non-observed economy would produce an increase between 60.000 and 80.000 annual million euros of tax collection.

I. Quantification of fiscal fraud depending on the economic sector

According to Gestha's information, almost the 72% of the committed fraud in Spain comes from big companies and big heritages. Small and medium companies are responsible of a 17% of the fraud and the rest 8% comes from freelancers and employees.

We use to think that even workers and freelancers are the smaller percentage on the total fraud committed in Spain, most of controls are on them because it is easier to detect irregularities on employees that work behalf of others and everything in registered.

Thanks to the personal incomes declaration many irregularities can be detected as the Administration has enough mechanisms to verify if the citizens' register corresponds with what they really declare.

Professionals and freelancers have been during many years a fiscal fraud's weakness due to the modules tax system that fomented the use of false bills that gave them fiscal benefits.

Due to that fact the Government forbid this taxation system to all the business that billed more than a 50% to other business or to which had a billing higher than 50.000 euros per year. In addition, the Government limited the cash payments to 2.500 euros if the payment is done between businesses or between individuals to business and freelancers.

Even the multiple control measures to this group, it is still very difficult to finish with fiscal fraud.

In order to SME's, it is thought that even they don't generate a very big quantity of fraud, the sum of all these small quantities create a really important problem to our country.

The most common types of fraud committed by SME's are not register workers to the Social Security or try to get not deserved subsidies.

It is important to say that the biggest fraud committed by SME's comes from the incomes auto liquidation declarations. Many companies declare bankruptcy and claim the lack of money to meet outstanding debts. To finish with this situation the Government has established different measures that helps Tax Agency to distinguish between the previous and later activities of the bankruptcy.

Another common method used by small and medium companies is to hide sales in order not to pay VAT. It means that they declare less sales than they really do, so they do not record the tax rate support. It is supposed that 18.000 million euros are not paid in VAT concept.

What is more, this companies tend to artificially increase their expenses in order to obtain more fiscal advantages.

As we mentioned before, big companies and heritages suppose the 72% of the total fraud committed in Spain. It is difficult to fight against this group because they have really good tax and legal advisory services that help them to commit movements near to illegality. One of the most practised fraud by this group it to take their incomes to countries where they can get more fiscal advantages or create screen societies in which there appear proxies to hide who really is behind.

According to Gestha's studies, the 5.000 biggest Spanish companies have delegations in fiscal paradises or in countries where the tax system is not as high as it is in Spain. These countries are Ireland, the Netherlands or Luxembourg, for example.

II. Main methods to commit fiscal fraud in Spain

When analysing the possible different kinds of fiscal fraud in Spain we should take in consideration a huge problem that has been rising during the last few years. The most important type of tax fraud are directly connected to economical felonies and money laundering. These different fiscal fraud which are the most dangerous have some specific features among which there is the fact that there are some concrete organizations which are specially created in order to commit fiscal fraud.

To fight against fiscal fraud there must exist continued and persistent instruments. These Organizations have to face the difficulty of being able to coordinate the different state's agencies which in some occasions drive their activity to a coordinated work between Tax Agency and Security State's Agency. The Spanish Tax Agency as well as other state's Agencies have been obliged to react towards the current fiscal fraud tendencies, such as:

- Fraud in the VAT
- Fiscal engineering operations
- Nets of false invoices
- Hiding of incomes and heritages using figureheads as well as dummy corporations
- Tax havens
- International tax fraud
- Real estate fraud

VAT's fraud: among the different kinds of fiscal fraud which are directly connected to VAT we can distinguish between the fraud through the organized networks (or "fraude carrusel") and the general fraud in VAT.

This kind of fraud is very used in Europe so the European Commission has denounced the lack of administrative coordination to fight against this fraud.

Even though it's pretty difficult to exactly quantify a concrete figure of fiscal fraud in VAT it is estimated that a 10% of net income are losses.

One of the difficulties in the fight against this kind of fiscal fraud comes from the fact that there is an important gap of time from the moment intracommunity acquisitions occur till the moment these operations are known by the States.

VAT fraud organized networks use to interpose societies which costs VAT quotes to taxpayers in order to put on them a supposed deduction right without any pretention to borrow this quantity by the ones who cost them. So it means that they generate false rights to devolutions for intercommunity's deliveries.

Fiscal engineering operations: another important used strategy to commit fiscal fraud are the fiscal engineering operations which are a group of legal operations that together become an assembly to commit fraud. That is the main reason why it is so difficult to investigate on them.

This kind of fiscal fraud is due to the manipulation of some specific rules that allow them to avoid high taxes. One example of a fiscal engineering operation is the incorrect use of SICAV in order to irregular manage personal heritages.

False invoices' networks: false invoices' networks are other important strategy used to commit fiscal fraud, most of them are used by contributors that are taken in objective estimation methods in Personal Income Tax

These practices are used as follows: people which taxation is established by modules tax following different parameters depending on variables such as the number of employees.

Thus, a freelancer or a small shop trade module system emit a false invoice to another employer who pays income tax on direct estimation or corporate income tax, without incurring any extra cost for the freelancer because he will pay the same regardless of what facture. However, the recipient of the false invoice will be able to deduct VAT and increase costs, thereby reducing his taxable income.

In this irregular practice it is common to find freelancers that get additional income by selling fake invoices.

Use of figureheads and dummy corporations: the use of figureheads to hide the true identity of who makes operations is widespread and widely used in the methods of organized crime and fiscal fraud.

Through dummy corporations are hidden assets and incomes frequently by a figurehead which holds the position of administrator in these intermediary companies. Is the figure of "manager straw" that in general are poor people accessing the claims of fraudsters in exchange of small amounts of money.

Tax havens: tax havens are characterized because they are small, opaque territories, which attaches anonymity ability to hide all income's sources, including criminal activities such as terrorism, arms trafficking and drugs.

How is it possible that a few countries generate many negative effects on the rest of the world, and why powers can't do anything to prevent it?

Countries do nothing to eradicate tax havens because they do not want to. Proof of this is the following: the 56's article of the European Community Constitutive Treaty prohibits restrictions on capital movements and payments between States Member and also between them and third countries. However, it would have been very easy to isolate financially and therefore eliminate tax havens if the Treaty had included as an exception the freedom movement of capital between the Member States qualified as tax havens territories.

Decisions like this make us think that political power is subordinated to financial power, acting as a transmission belt to enforce the claims and fulfil the will of financial interests. Due to this lack of political will by the EU to eradicate the problem of tax havens, Gestha proposes a series of measures like intensify checking artists and sportsmen resident in tax havens, stablish a special levy on movements of funds in origin and destination of tax havens, among others.

International fiscal fraud: since the incorporation of Spain in the EU and the implementation of free capital movement capital and economic globalization, there are

more indices of international fiscal fraud in our country. This phenomenon has increased with the expansion of technological information means and communication.

At the same time, this international tax fraud is often related to the commission of other crimes and money laundering.

An example of this is tax fraud is mafia, drug trafficking, money laundering and crimes against the Tax Agency. This network of international fraud has caused to the Spanish Treasury a loose of more than 2.000 million euros.

The real estate fraud. Under the generic name of real estate fraud is referred to various relevant phenomena such as:

- Hiding gains from the transformation of rural land or not buildable in general.
- Hiding incomes by developers or builders despite the huge profits reported by these activities.
- The transfer of property at below actual prices.
- The use of the sector for laundering which proceeds of crime or organized crime networks.

The real estate fraud is one of the most common in Spain and at the same time it is a complex type of fraud, which has pretty increased as a result of urban bubble and speculation, which have caused an unprecedented urban corruption.

The real estate fraud covers all stages of the economic process, from creating floor to the promotion, construction, home sales and leasing. What is more it is a sector in which huge amounts of black money are moved.

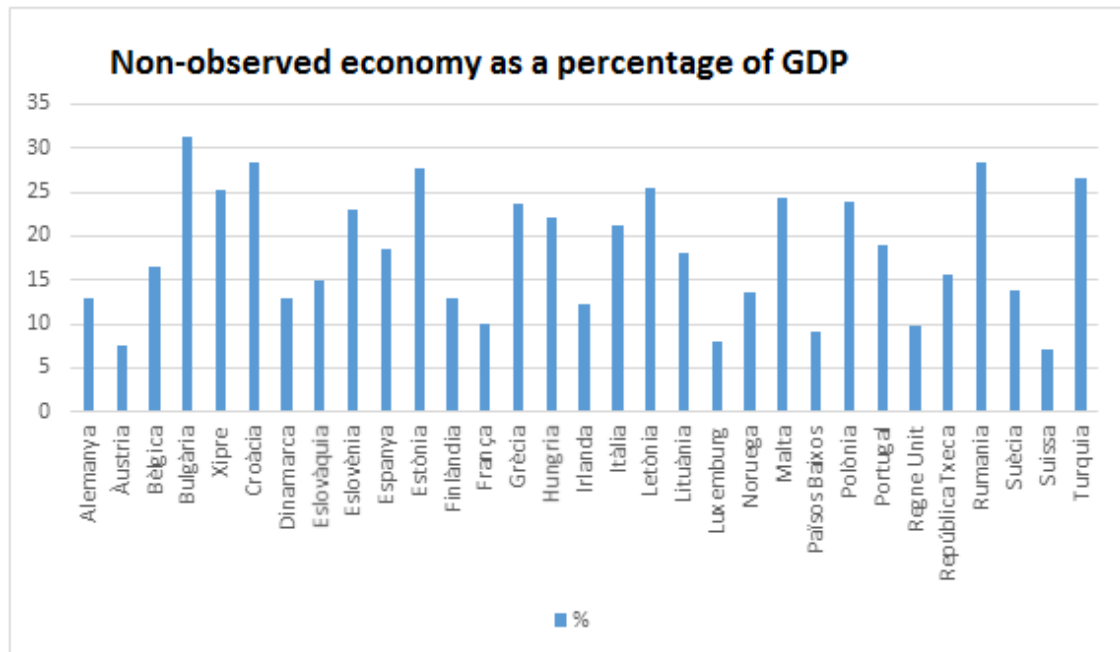
c. Analysis and comparison with European Union

First of all it must be emphasized that tax fraud and underground economy are not the same. The non-observed economy includes a series of wrongdoings among which are not only non-payment of taxes or tax fraud, but also non-payment of contributions to Social Security, breach of labour standards, breach of administrative procedures or corruption.

Due to a lack of official data of tax fraud we have collected some data on the underground economy in Europe.

Looking at the OCDE's group of countries we can see that Spain is part of the group of countries with a bigger non-observed economy. Italy with 21.10%, Greece with an approximate value of 23.60% and Portugal with nearly 20% have values higher than the Spanish, because Spain has a 18.60% but all values are removed from Germany, which has a 13% of underground economy.

In the table shown below we can see which percentage of non-observed economy in every country of the European Union. This graph is homemade and made from data from a study by *AT Kerney* estimates of the economy in 2013, with indirect estimation method MIMC.



Graph 17. Non observed economy as a percentage of GDP

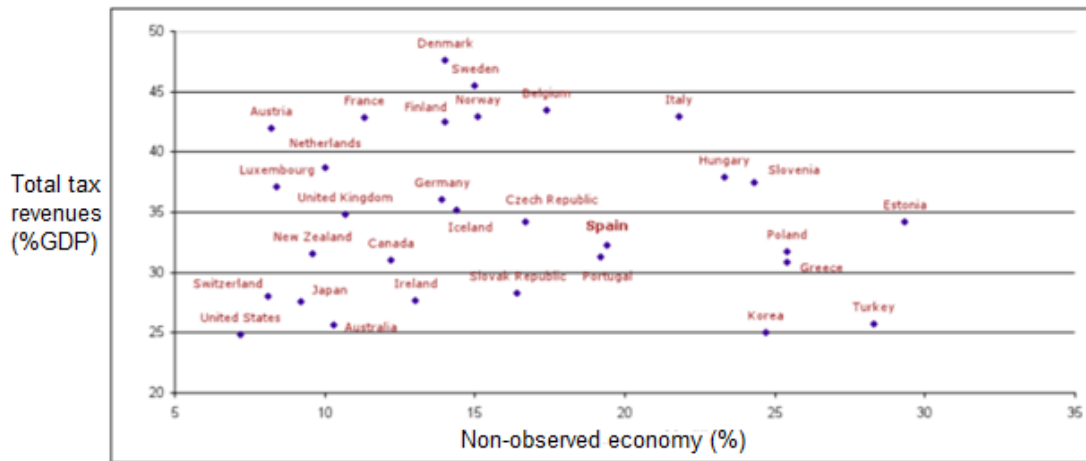
Source: own calculation with OECD Data (<https://data.oecd.org/>)

Values can present little variation depending on the estimation method used to calculate the percentage of non-observed economy.

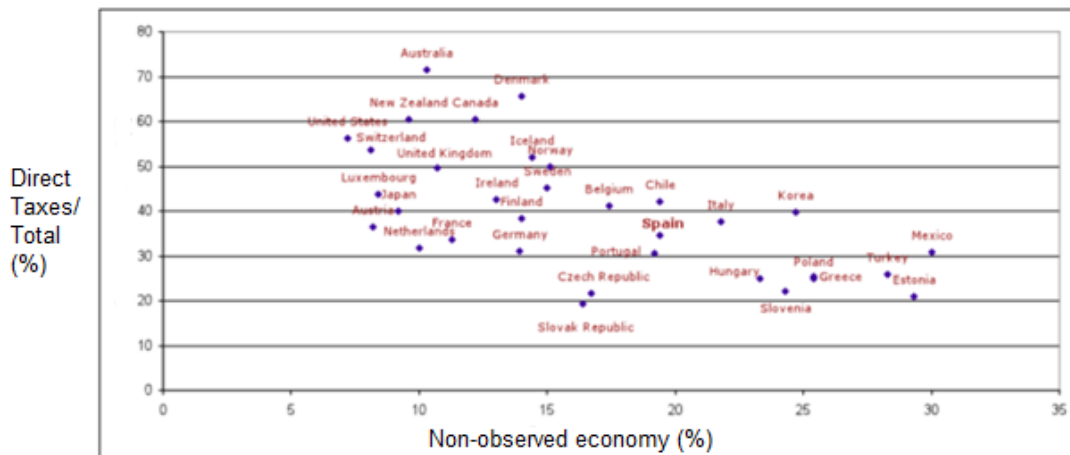
Then proceed to analyse the relationship between the quantity of non-observed economy in different OECD countries with different variables theoretically related to the underground economy. In order to do this study we have divided a set of variables into two groups: the variables referring to the tax system and those related to the labour market. The point clouds are excerpts from a document published by the Gestha.

- Variables referred to the tax system:

First consider the total taxes compared to GDP and the importance of direct taxes (such as income tax) and the indirect (such as VAT) in total tax revenue, all variables are expressed as a percentage.



Graph 18. Total tax revenues (% of GDP) related with non-observed economy(%)
Source: "AT Kerney estimation 2013, estimation method MIMC."



Graph 19. Direct taxes (%) related with non-observed economy (%)
Source: "AT Kerney estimation 2013, estimation method MIMC."

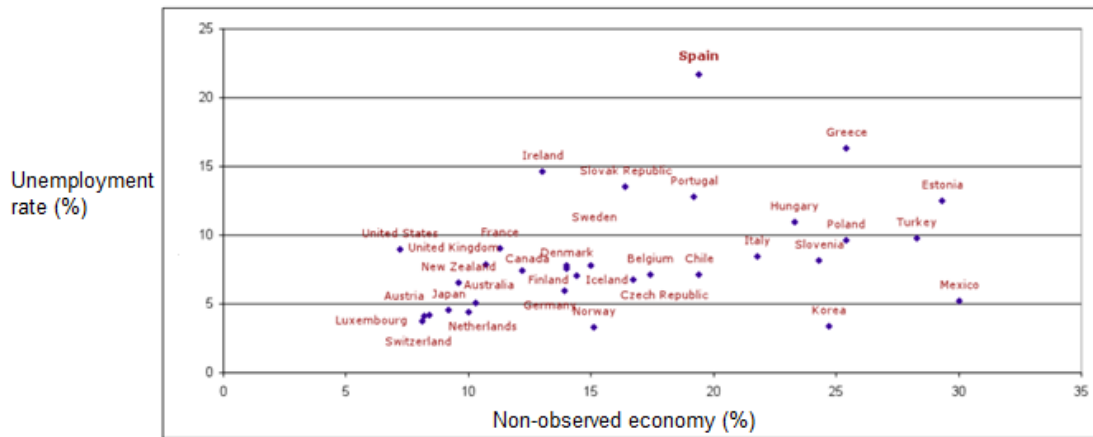
It is supposed that countries with highest taxation should be more incentivized to participate in the underground economy. The same would happen with the collection of indirect taxes in total tax collection. But in reference to direct taxes levied on the total incomes it seems reasonable to expect that as higher is that ratio, the non-observed economy should be less.

So, if we observe the graphs we can see that the results are unclear. We can see that most developed countries are those rates which have a higher taxation, but it is not linked to the weight of the informal economy, as it presents moderate or low values. Moreover, the less developed countries of the OECD which have a lighter taxation have a higher percentage of non-observed economy. Spain is positioned in an intermediate position although it tends to be one of the less developed countries.

We had assumed that there would be no relationship between taxation and the underground economy, but it is not clear as we can observe in the graphs.

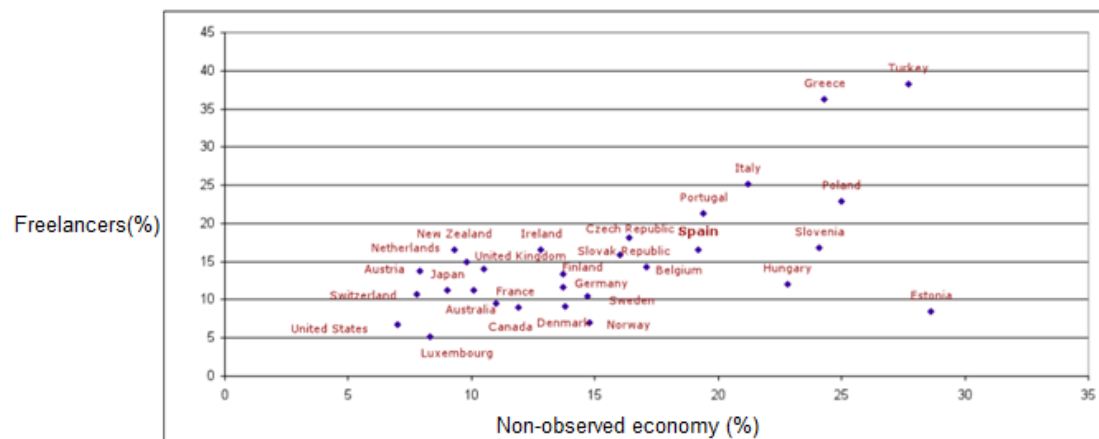
- Variables related to the labour market:

Then we want to analyse the variables that relate the labour market with the non-observed economy level, and we hope that the relation between both variables is direct. The variables considered are unemployment rate, the percentage of total freelancers, the percentage of workers part-time employed and the total percentage of workers unemployed for more than a year on the total unemployed.



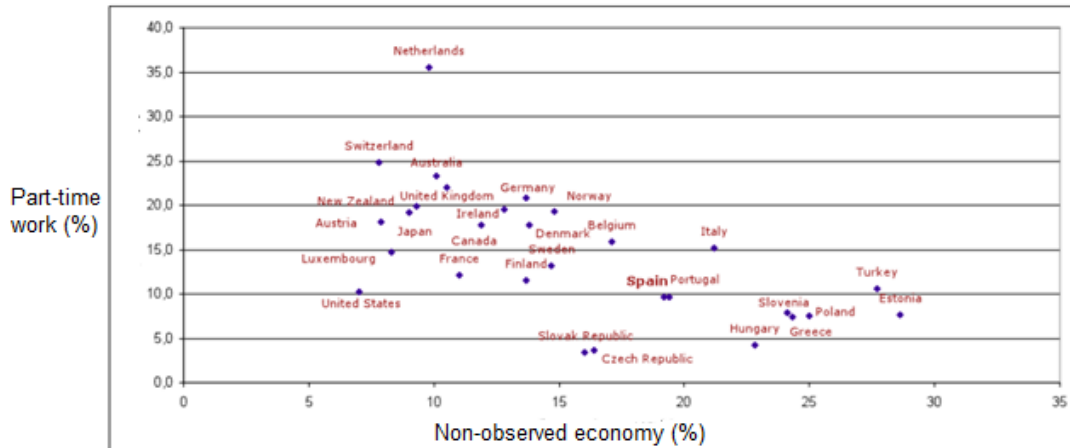
Graph 20. Unemployment rate (%) related to non-observed economy (%)

Source: "AT Kerney estimation 2013, estimation method MIMC."

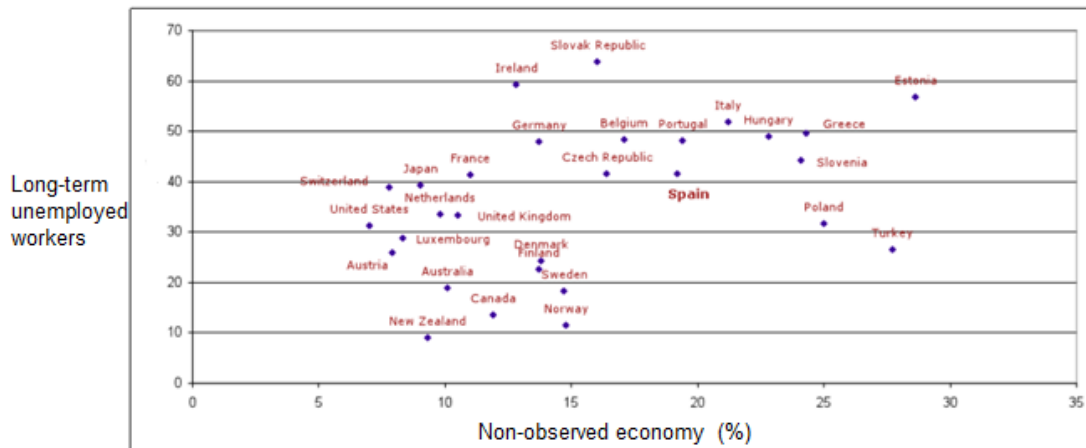


Graph 21. Freelancers (%) related to non-observed economy (%)

Source: "AT Kerney estimation 2013, estimation method MIMC."



Graph 22. Part-time work (%) related to non-observed economy
Source: "AT Kerney estimation 2013, estimation method MIMC."



Graph 23. Long-term unemployed workers related to non-observed economy
Source: "AT Kerney estimation 2013, estimation method MIMC."

Looking at these graphics we can say that the unemployment rate and the percentage of total freelancers present the expected behaviour, so as more pronounced is the non-observed economy, higher is the unemployment rate (or freelancer percentage, in this case).

If we compare the percentage of unemployed workers in the long term to the total economy of the country can see that it's true what we had previously expected, but the variable "percentage of part-time workers" does not give a clear result analysis.

d. Why people commits fraud?

It's difficult to find reasons that drive to defraud and there are few studies thereon. Even Though there are six main facts that can be identified as causes that boost to commit fiscal fraud.

All these facts were mentioned by *Schneider and Buehn* in their study published in 2012 and also in the study done by *AT Kearny* in 2013. These causes are:

- The evolution and the situation of the taxation
- Facility to hide the activities done and the economic transactions generated
- Non efficient regulation
- High controls and fiscal fraud repression
- Citizens' fiscal moral
- Transparency and corruption

If we consider the taxation, it seems that it has to be a positive correlation between taxation and fiscal fraud level. We must analyse the Spanish case in which we can see that during 80's there was a high taxation increase that brought a big raise of fiscal fraud. Talking in non-observed economy terms it is important to say that in Europe the most affected economic sectors are the followings: construction, manufacturing and small shops. In 2013 in Spain, a 32% of the underground economy of the country was concentrated in the construction sector, 18% in the production of manufactured goods and a 20% in small businesses. We should note that in Spain there is a significant percentage of non-observed economy in hotels and restaurants, nearly 21%. The other activities where it is more likely to commit irregularities are housework, rents and transport and communications.

Furthermore it should be noted that there is a negative relation between the underground economy and the number of electronic transactions, so countries that have a higher number of electronic transactions have lower rates of non-observed economy. For example, countries like the Netherlands, Finland and the United Kingdom are estimated to have a number of transactions per habitant of between 280 and 400 and its non-observed economy rates go from 8% to 13%. However, citizens of countries like Spain, Italy and Portugal only have between 80 and 120 transactions a year per habitant and have a non-observed economy rate around 20%.

Looking at the regulations that exist in Spain, we can see that the excessive regulation hinder the development of economic activities and it is seen as an incentive to commit fraud. The study was conducted by *Buehn and Schneider* in 2012 and it is focused on labour market regulation. In Spain it is estimated that unemployment has influenced the non-observed economy in a percentage of 29.20%.

Regarding the intensity of control and repression against fiscal fraud and non-observed economy we can see that Spain has a number of employees in the Tax Agency lower than the OECD average. This results in a lack of fraud control in Spain.

We must analyse the major problem of morality existing in Spain with tax payments. As *Torgler and Alm* concluded in their study, moral tax, which means the willingness of

citizens to contribute voluntarily with their tax obligations, is higher in the northern Europe countries than in southern. As we have noted before, the Mediterranean countries like Italy, Greece and Portugal have higher rate of tax fraud than the Spanish one, but countries such as Germany, France and the UK show a significantly lower rate of underground economy than Spain.

Regarding the last point, there exists correlation between transparency and corruption on the one hand and the non-observed economy on the other. In 2014 it was developed an index of International Transparency which placed Spain at the 37 position of 174 countries surveyed. In the top of this index we could find countries such as Finland and Denmark, which have a high taxation but few underground economy.

To all these elements that promote commit tax fraud it must be added the crisis that is affecting Spain. The economic and financial crisis we are living since 2008 has had clearly negative effects on moved hidden capital in our country. The non-observed economy in Spain rose 60.000 million euros during the crisis, what supposed that country's undeclared economy represented a 24.60% of GDP in 2012 (approximately 253.000 million euros hidden).

The volume of black funds grew an average of 15.000 million euros per year since the beginning of the crisis in 2008, when at that time the percentage of non-observed economy was a 17.80% of GDP. Therefore in 2009 it was the maximum economic recession in Spain and the amount of the economy that year was 27.000 million euros. This increase was due to the big drop in the real estate sector. In addition, the increase of hidden economy in Spain was compounded by unemployment rising, tax increases and the many political and business corruption. Moreover, the use of banknotes of 500 euros in Spain grew tremendously. Specifically represents a 73.70% of cash in circulation in our country and in Spain there is a 14% of the total of 500 euro banknotes that surround the euro area. These tickets are one of the favourite instruments fraudsters to develop irregularities.

Considering the people's vision around tributary fraud, one of three Spaniards (33.30%) claim that all or almost everyone they know declare all their income to the Treasury. A 32.80% say that quite a lot of people who know do it, and a 18.40% say that they know few people who declare the totality to the Tax Agency and a 1.70% say that they do not know anyone who declares everything. Moreover, a 58% of respondents believe that in Spain there is very tax fraud. A 63.90% of respondents believe that Spanish citizens pay many taxes and 86.70% believe that taxes are not completely fair.

A 86.40% say that if you commit fraud to the Tax Agency you are also defrauding the population, a 72.30% believe that people don't commit more fraud because they are

afraid to be discovered and a 44.90% of respondents believe that most people commit fiscal fraud.

These results came from a survey conducted last year by the CIS³⁴, in which we can see that most of the percentages point Spain as a country where the tendency to defraud is high.

e. Measures against fiscal fraud

Fiscal amnesty (2012)

In 2014 under the mandate of *Partido Popular*, the Public Finance and Administrations' minister, Cristobal Montoro announced a new fiscal amnesty for non-declared goods, included the financial assets which were hidden in tax heavens and in cash. The main condition was to pay a 10% tax without any punishment. It should be remembered that a similar plan was installed in 1984 by PSOE's ministers.

The fiscal amnesty was started in order to regularize a total of 25.000 million euros of black money. The amnesty was forbidden by law and that is why the regularized incomes had to pay a 10% tax. A total amount of 2.500 million euros was pretended to be collected.

Tax evaders were quite benefited by this strategy because they could save an important quantity of taxes. People such as *Rodrigo Rato*, *Luis Bárcenas*, *Jordi Pujol's* son, among others took advantage of fiscal amnesty.

A part from that, another tax was implemented in order to capture non-declared incomes by PIT contributors, CIT profits and personal income tax of non-residents to be able to regularize their tributary situation paying a 10% of the amount of goods and emerged rights.

The strategy's results were not any successful since only 48% of the expected tax quantity were obtained. Only 1.200 million euros were levied.

Strategy plan against fiscal fraud

Tax Agency installed a group of different actuaciones against fiscal fraud, which can be found y in "*Plan Anual de Control Tributario Duanero*", in 2015. The main guidelines of this plans are as follows:

- Strengthen the process of control and prevention to detect the hidden activities of the sectors where higher index of tax fraud could be observed. One of the branches which will be widely observed by Tax Agency will be the tourism one. One of the main focus to

³⁴ Centro de Investigaciones Sociológicas

be fought by the Tax Agency is the control of “double use software” which can allow people to alter the accounts in order to falsify the tributary declarations.

- Tax Agency pretends to increase the analyses of tributary data obtained through the declaration of the goods in a foreign country
- To fight against the international tax planification’s structures that allow reduce taxable base and deflect the benefits to countries in which the taxation are less strict than in Spain (BEPS project).
- Since last years digital economy is one of the tax fraud’s focus point. Tax Agency pretends to investigate deepen in the network’s activities.
- Continue investigating the activities implemented by professionals.
- VAT’s fraud international frameworks and massive acquisition symbolic price’s frameworks in which relapse important taxation will be hardly controlled.
- Tax Agency will analyse the contributors that practice economic activities in order to detect irregular bills to pay less taxes. In addition there will be an amplification of the foundation’s control to avoid an abuse of the special tributary system in which they are taken.
- There will be an intensification of the products subjected to Special Taxes.
- Tax Agency pretends to intensify the customs’ control.
- More control and repression against contraband, drug trafficking and the money launder. On the other hand, Tax Agency installed in a special plan to fight against tributary fraud in 2015 with which was pretended to obtain among 12.328 million euros, a higher quantity than in 2014.

This strategy was composed by a group of economic incentives for the 25.750 Tax Agency’s workers in order to increase the incomes derived from tax fraud. Due to recent information, the tax income obtained by this plan was a quantity of 13.500 million euros in 2015.

This strategy will be also performed in 2016. The plan is completely voluntary for Tax Agency’s workers and it studies the possibility to increase 12 annual hours from their scheduled. The results will be analysed in two different main periods: get the results during the first semester of the year (till June’s 30th) and in the whole year (till November 30th).

The Extraordinary Productivity by results linked to this plan has two parts: a regular one that will turn into non payed back payments and a variable one that will depend on the productivity obtained in each period. The expected results for 2016 are higher than the

ones obtained in 2015. Tax agency pretends to collect four times the quantity obtained in 2015.

A successful similar strategy was practiced in 2014. This plan objective was to levy a total of 1.568 million euros and they could finally collect a 45% more than the expected result, a total of 2.262 million euros. This strategy had a cost of 19 million euros for Tax Agency.

BEPS project

In an increasingly interconnected world, national tax laws have not always kept pace with global corporations, movement of capital, and the rise of the digital economy, have created gaps that can be exploited to generate non-taxation. This undermines the fairness and integrity of tax systems.

Base Erosion and Profit Shifting (BEPS) refers to tax planning strategies that exploit these gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. BEPS has major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

Research undertaken since 2013 confirms the potential magnitude of the BEPS problem. Estimates conservatively indicate annual losses of anywhere from 4 - 10% of global corporate income tax (CIT) revenues.

BEPS is a global problem which requires global solutions. For the first time ever in tax matters, OECD and G20 countries worked together on an equal footing. More than a dozen developing countries have participated directly in the work and more than 80 non-OECD, non-G20 jurisdictions have provided input.

Fifteen actions equip governments with the domestic and international instruments needed to tackle BEPS. The final BEPS package gives countries the tools they need to ensure that profits are levied where economic activities generating the profits are performed and where value is created, while at the same time give business greater certainty by reducing disputes over the application of international tax rules, and standardising compliance requirements.

f. Planned measures against fiscal fraud

First of all and due to the instability of the politics in our country, we want to analyse which are the proposals that different political parties in Spain have to fight against the tax fraud.

Partido Socialista Obrero Español

As expected, the PSOE's program for the last elections of 20th of December referred to fiscal fraud. Some of these measures proposed the PSOE's leader, Pedro Sanchez, regarding this matter are as follows:

- To increase in 5.000 the number of workers of the Tax Agency that fight against fiscal fraud in the following four years.
- To address a real and significant percentage to the AEAT budget in order to fight against fiscal fraud.
- To modify the figure of fiscal felony in order to make it more effective (it pretends to intensify the punishment of tax felony).
- To revise the "objective estimated regimen" to reduce the fiscal fraud which could be reduced with this tributary instrument.
- To increase the service of Customs Security Services and the coordination of AEAT with the attorney. They pretend to promote the existence of specialized courts in economic felony and tax fraud.
- To create a fighting strategy against the fiscal fraud.
- To elaborate a law to fight against fraud with modifications to correct legal gaps and rules which can allow fiscal evasion.
- It is completely against new fiscal amnesties.
- To increase the control of SICAV, SOCIMI
- A proposal of measures addressed to promote citizen culture which give strength to the accomplishment of voluntary fiscal duties.

Partido Popular

Regarding PP their program of 20th of December it proposes a fiscal reform in which there is the reduction of different taxes (among them the Tax on corporate profits), which could help to reduce the taxation as well as the fiscal fraud.

There are declarations and positions that the "*Partido Popular*" has mentioned concerning this topic. The PP proposes to increase the efficiency to persecute corruption and states that the best method to stop the tributary fraud is the transparency of every euro. They also pay special considerance to the transparency of the party. That it is to say they offer measures and penalisations to any member of the party who commits fraud. They specially base their speeches to all their government has done to finish with the irregular economy.

6. Main proposals for Spanish taxation system

a. Experts group from PP

The Experts' Commission appointed by the Government exposed the Report for the Reform of the Spanish Tax System in July 2013. It is a comprehensive report in which it is exposed a previous description of the problems and also defines concrete proposals that affects many of our taxes related to tax evasion, social security contributions, etc.

The review of the objectives and principles that guide the reform is necessary to deal with the proposals that we will analyse.

The main objective of fiscal policy of the Government is to get a fiscal consolidation, and that tax reform should give its effectiveness beyond this immediate and short-term objective. From the economic point of view, it is proposed to achieve an improvement in the competitiveness of the economy, increase employment and increase savings. And along with these objectives, we find the three traditional objectives of fiscal policy: efficiency, fairness and adequacy.

This reform proposal is compatible with the objectives of budgetary consolidation mentioned in the Stability Programme of Spain, in which a stabilization of the ratio of government revenue in percentage of GDP was projected.

If we focus on the recommendations that the European Council, the European Union, the International Monetary Fund and the OECD have made to the Spanish Government, we found these key proposals:

- Increase the relative weight of indirect taxation, expanding the number of goods and services subject to the general VAT rate and raising environmental taxes. And also a reduction of direct taxation if we consider that direct taxes reduce the real possibilities of economic growth.
- Reduce exemptions, deductions, special schemes and reductions in all taxes in order to get a greater horizontal equity.
- Increase taxation on the equity property value while reducing taxes levied on the transfer of those assets. The patrimonial taxation is focused on the property in order to eliminate the Heritage Tax and increase the Property Tax.
- To reduce social security contributions. The Commission proposes to reduce the social security contributions in order to approximate the current contributions system to a real tax on payroll and also to eliminate indiscriminate bonuses.
- Intensify the fight against the informal economy and undeclared work. It considers that the best preventive measure against fiscal fraud is to convince taxpayers of the existence

of a balanced relationship between input tax and goods and services received. One of the problems is the inability to exclude the consumption of many public goods and services of those who do not pay their taxes, those who appropriate the benefits of public spending.

Another key to consider of tax reform is our decentralized tax system, structured by the Organic Law on financing of the Autonomous Communities which should be addressed both internal principles and community. It is conscious that the tax decentralization can lead to distortions in the internal market unit and even in the behaviour of taxpayers regarding consumption, savings, business investment and even the location of people which could bring ruptures of the fiscal neutrality principle.

It is proposed that the tax decentralization settles in taxes imposed on final income earners or in the case of indirect taxes on consumption, taxes levied on the retail stage. It is proposed a model in which the state must exercise its responsibility as guarantor of the market unity and tax neutrality.

All the mentioned keys give rise to a detailed proposal whose execution is proposed in two phases. A first reform phase of the main taxes intended to be neutral from the tax collection point of view without substantial reductions in social security contributions and a second phase of reduction in social security contributions for employers to be offset by increases in indirect taxation.

Now we are going to see which is the reform proposal that this commission has for the most important taxes of the Spanish taxation system.

Personal Income Tax

The Personal Income Tax in Spain was characterized by the existence of high marginal rates and excessive tranches in tariffs, high number of exemptions and deductions in structure and lack of neutrality in the different taxed incomes and in the treatment of different savings instruments.

The reform proposed by the Commission pretended to reduce the quantity of exemptions and deductions and an amplification of the tax base definition that could allow a reduction in the tariff rates and a simplification of them. The reduction of the tax rates would reduce their distorting effects which, combined with the expansion of its base, would improve its equity and would help to compensate the losses of the tax collection tariff reduction. In addition, the reform should promote savings.

The Commission did a review of the tax exemptions and proposed eliminating some of them to increase the tax base and tax neutrality. It was also proposed the elimination of

the existing reduction of the earned income tax and its replacement by a unique amount that would serve to compensate the expenses incurred by the worker as a result of their work.

Due to the deductions, the gradual elimination of the deduction for loans is proposed as well as a thorough review of the deductions applied by the Autonomous Communities. In order to encourage savings, the Commission proposes to maintain the dual system of tax base definition, composed of a general base taxed by progressive rate and savings base taxed at a unique smaller type.

In order to the general rate of Personal Income Tax, the Commission does not give a concrete proposal about that, since it is fundamental to determinate tax progressivity. However, it propose a set of general criteria in line with European trends taxation.

Corporate Income Tax

The Spanish Corporate Income Tax was characterized by the existence of high nominal rate tax that coexisted with reduced effective rates for companies that allow them apply the large number of deductions that this tax offers.

What is more, the existence of two tax rates and two tax regimes depending on the business' volume used to generate disincentives to business growth has negative consequences for the economies productivity. Furthermore, the tax kept their preference in corporate indebtedness. Finally, the deductions generate high tax collection costs on our economy.

The Commission's philosophy on the reform of corporate profits tax is to eliminate some of the existing tax benefits that allow a reduction of the tax rates, which are very important to incentive both domestic and foreign investment.

The target is to approximate the effective tax rates to the legal rates,

The Commission's proposal is to gradually reduce the nominal tax rate from 30% to about 20%. In addition, it should be abolished the special scheme for small companies. Furthermore, the Commission analyses different ways to reduce what encourages tax on corporate profits to indebt.

Property taxation is higher in Spain than the EU average. Spain has a lower rates of taxation on property that is compensated by a higher tax on transactions and by other taxes on that property.

In tax on property's case, the Commission proposes its elimination following the other developed countries seen trend and due to the negative effects on savings, their small collections and because the possibilities for international tax planning for high heritages undermine their potential contribution to the equity of the system. The Commission proposes to maintain the inheritance tax to improve equal opportunities and promote equity of the system.

Value Added Tax

Despite the successive increases in general and reduced VAT rate during the crisis, the revenues for this tax, as a percentage of GDP, places Spain among the lowest in the EU27. The standard VAT rate in Spain is aligned with the EU average (21%) but the effect of reduced rates and exemptions is one of the highest in Europe in terms of loss of revenue.

The smaller relative importance of this tax on the total taxation in Spain and its minor distortionary effects, its neutrality and the possibility of using it as a tax collection alternative measure without generating losses in competitiveness are the reasons why the Experts' Committee defend an increase in taxation through this tax.

About exemptions, there is very few chance to change them since most of these exemptions are imposed by Community legislation but the Commission proposes to eliminate many of them.

International organizations' recommendations

There have been a lot of recommendations of the EU council formulated at the "*Programa de Estabilidad Presupuestaria y Reformas del Reino de España 2013-2016*" and IMF³⁵ and OECD in different dates from 2010. All these can be summarized in the following 10 points: As for the super-reduced rates the increase would have regressive effects, the Commission considers to move the goods and services subject to super-reduced rates to the general type, but compensate it with benefits to lower income.

³⁵ *International Monetary Fund. In spanish "FMI: Fondo Monetario Internacional"*

1. The fiscal consolidation is considered as one of the most important need. All the reports recommend the need to reinforce the budget strategy from 2014 to 2016 with measures that allow the correction of the actual imbalance.
2. The European Union council considering the Spanish government's proposals believe that the tax system revision should be finished in March 2014.
3. The European Union estimates that the direct taxation increases reduce the effective possibilities of economic growth.
4. Most of studies consider that the reform should get an increase of the relative weight of indirect taxation and of the taxation against the environment decline in the public incomes.
5. Also consider that the revision of the tax system is based on a sharp reduction called tax expenditures, exemptions, deductions, special schemes and tax cuts.
6. The reports insist on the need to reform in personal income tax deduction for contributions to pension plans, reducing their exemption limits and preventing the current treatment that creates distortions in the savings' placement.
7. The European Union considers that the deduction for mortgages stemming from the acquisition of the property that constitutes the habitual residence of the taxpayer should be suspended.
8. The OECD stresses the need to eliminate any personal income tax that has a favourable treatment for housing owned by the taxpayer that constitutes his own home.
9. Most reports highlight the necessity of increase the current taxation of real estate, while reducing the tax imposed on the transfer of those assets.
10. All reports emphasize the need to intensify the fight against the informal economy and undeclared work.

b. FEDEA Reform proposal

The starting point of the reform that FEDEA ("*Fundación de Estudios de Economía Aplicada*") presents is, as we have seen along this work, that Spanish economy has an inefficient taxation system that is not able to collect enough resources to maintain the welfare state. As they mention, the Spanish public deficit is around the 3% of GDP. Their proposal has the objective of reducing this deficit by increasing revenues by three GDP points. As they state, this proposal of reform pretends to raise the tax revenues without damaging the weak recovering. They consider that all taxes have problems related to total collected revenues. They analyse each tax before explaining the proposal and the expected effects.

The main strategy for Personal Income Tax and Corporate Income Tax consists on raising the taxable bases with the elimination of deductions, exemptions and fiscal benefits and at the same time reducing the marginal rates to situate them on the average of the developed countries.

About the Value Added Tax, they propose to obtain on this tax an increase of 2% of GDP by establishing a unique tax rate. They propose also support measures to compensate those less affluent families.

Finally, about Excise Taxes, they proposal is also to situate them on the European average. Basically they focus on alcohol, tobacco and hydrocarbon excise taxes.

As they argue on this document, applying this measures Spain could be able to raise the tax revenues four percentage points of GDP.

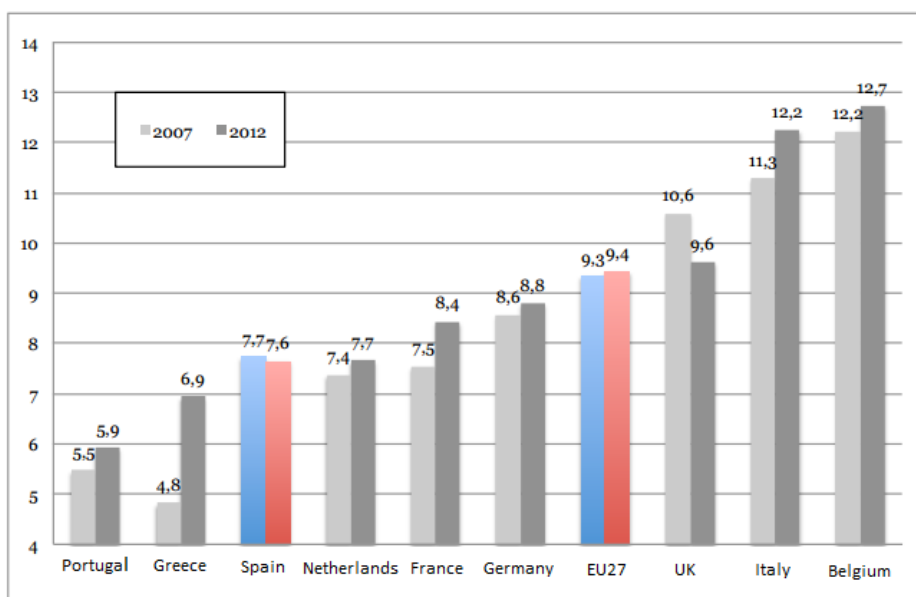
The proposal does not take into account Social Security contributions. Next, the proposal regarding PIT, CIT, VAT and excise taxes is explained.

Personal Income Tax

- PIT tax revenues

Thereupon we will comment the reform they purpose for PIT. First of all we will see the tax revenues. Next graph shows a comparison between total revenues in Spain and in the neighbouring European countries, in percentage GDP points:

Graph 1. PIT tax revenues as a percentage of GDP



Graph 24. PIT tax revenues as a percentage of GDP

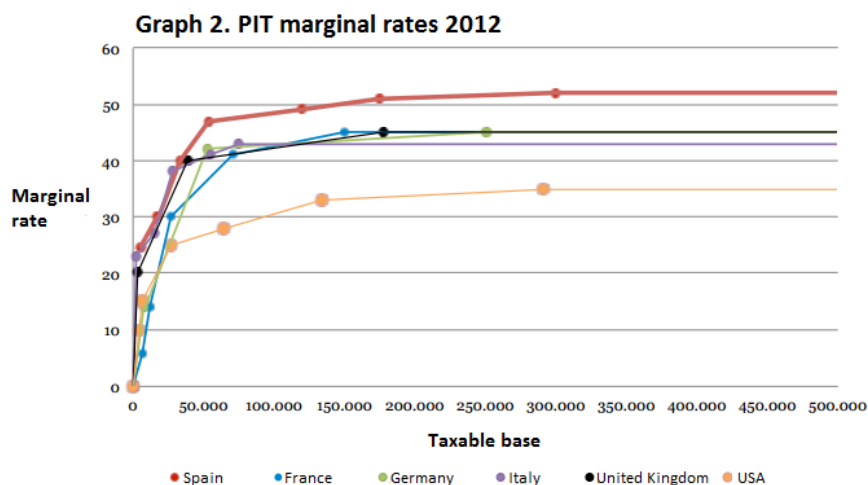
Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

As we can appreciate, Spain is one of the countries that collect less in terms of Personal Income Tax as a percentage of GDP. In 2012, Spain PIT tax revenues were 2 percentage points under the EU average. Furthermore, Spain is one of the few countries that have been experienced a decrease in total revenues between 2007 and 2012.

European countries with higher revenues were Belgium (12, 7% of GDP), Italy (12.2% of GDP) and United Kingdom (9.6% of GDP). In 2012, Spain total revenues were 7.6% of GDP whereas EU average was 9.4%.

- Taxation rates

This low revenue is not linked to a lower tax. In the following graph we can see that Spain in 2012 was the country with highest marginal taxation rates of EU for almost every income level.



Graph 25. PIT marginal rates (2012)

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

- Fiscal benefits

If the problem is not the rate, low total revenues are due to the existence of many fiscal benefits that reach almost 15% of total collected. Fiscal benefits are exemptions, base reductions and deductions. Besides reducing the collection for this tax, fiscal benefits make more difficult the management of the tax and encourage fiscal fraud.

Now we are going to see the most important ones:

GRAPH 3. PIT FISCAL BENEFITS 2014 (MILLION EUROS)	
Taxable base reductions	21.258
Total labour income	13.865
Joint taxation	3.609
Contributions to Social systems (not forecasting)	2.174
Renting of properties (houses)	959
Rest of reductions	651
Deductions in taxation	7.477
Investment in main residence	3.571
Maternity	1.519
Earned incomes or from economic activities	1.151
Usual residence renting	337
Donations	171
Regional governments deductions (2011)	418
Rest of deductions	311
Exemptions	2.442
Special levy on lottery and bet prizes	729
Capital gains for reinvesting on usual residence	516
Invalidity pension	502
Severance payments	275
Pension for dependent children, orphanage and maternity	235
Rest of exemptions	185
Total fiscal benefits for PIT	31.177

Chart 28. PIT Fiscal benefits 2014

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

- Reform proposal

Their proposal of reform for PIT is to reduce marginal tax rates and to remove fiscal benefits. At the same time, this will also improve neutrality and simplicity principles. To achieve this objectives they base on three fundamental pillars.

1. To remove entirely all fiscal benefits except the reduction of total labour income
2. To raise exempted minimum income from 5.151 euros to 7.470, supposing an increase of 45%.
3. To reduce marginal tax rates

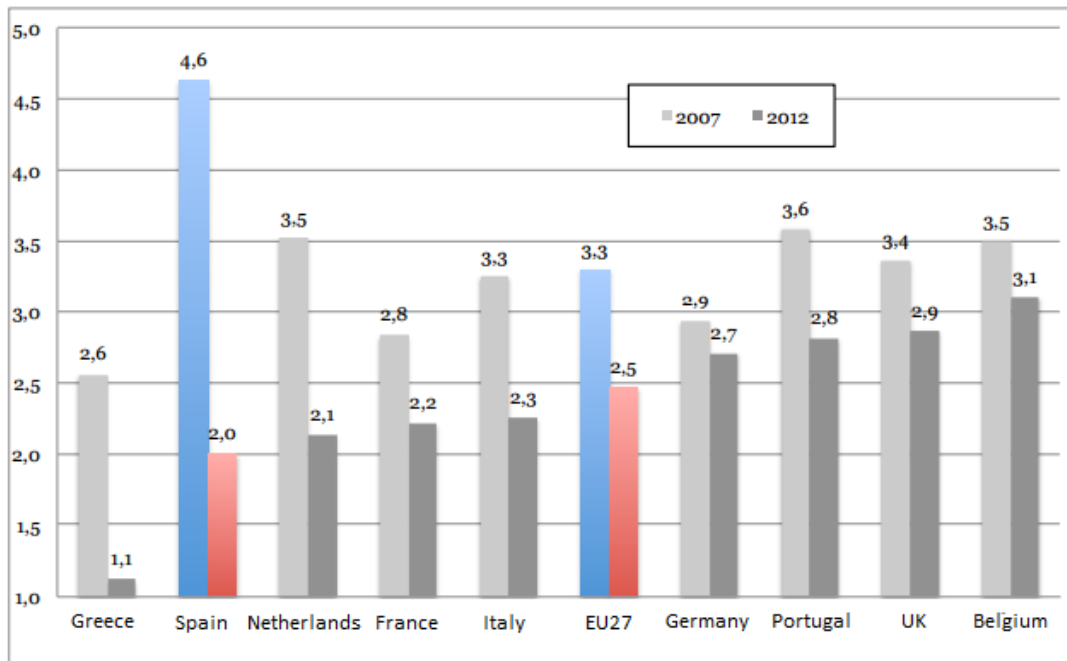
Corporate Income Tax

The analysis of this tax reform is very similar to the one of PIT: First they study the tax revenues compared with other EU countries, the causes of the low collection (also linked with fiscal benefits, because tax rates are still being high) and the proposal of reform.

- Tax revenues

In terms of collection, the tax revenues for CIT in 2007 were higher than the EU average. About the analysed countries, Spain was the country that collected more in percentage of GDP reaching the 4.6 points of GDP. When housing bubble exploited, the tax revenues decreased until 2% of GDP and passing to the last positions of EU.

Graph 4. Corporate Income Tax revenues (% of GDP)



Graph 26. CIT Tax revenues (% of GDP)

Source: FEDEA reform with Eurostat Data

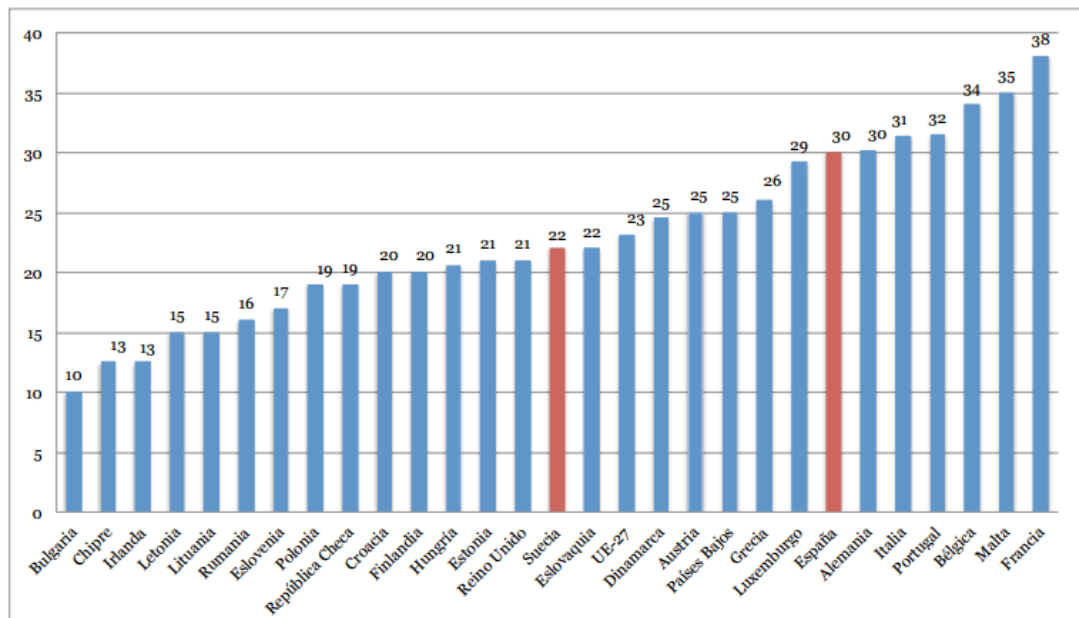
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

The explanation of this heavy decrease is the housing bubble that brought large quantity of benefits to construction companies and banks.

- Taxation rate

About the rate, we can see that Spain is one of the EU countries with higher taxation rate for Corporate Income Tax. Here we have a bar graph that shows, the taxation rate for CIT in different countries in EU and also the EU-27 average for 2014.

Graph 5. Corporate Income tax. Taxation rates (%) 2014



Graph 27. CIT taxation rates 2014 (%)

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

If it wasn't enough, Spain is the country that has reduced in a less percentage the rate for CIT since 1985. As we can see in the following chart, generally, the main part of European countries have reduced their taxation rate. However, in Spain, we can see that their taxation rates have been maintained with very few changes.

CHART 6. CORPORATE INCOME TAX. GENERAL RATE EVOLUTION							
Country	Year						2014-1985 Difference
	1985	1990	1995	2006	2013	2014	
Germany	63	58	57	25	30	30	-33
Austria	61	39	34	25	25	25	-36
Belgium	45	41	40	34	34	34	-11
Canada	45	37	36	35	26	26	-19
Denmark	50	40	34	28	25	25	-26
USA	50	38	39	40	39	39	-11
Spain	35	35	35	35	30	30	-5
Finland	43	25	25	26	25	20	-23
France	50	37	37	33	36	38	-12
Greece	44	40	40	29	26	26	-18
Netherlands	43	35	35	30	25	25	-18
Ireland	50	43	38	13	13	13	-37
Italy	46	46	53	33	31	31	-15
Japan	55	51	50	41	37	37	-18
Norway	51	51	28	28	28	27	-24
Portugal	55	40	40	28	32	32	-24
United Kingdom	40	34	33	30	23	21	-19
Sweden	60	45	28	28	22	22	-38
Average	49	41	38	30	28	28	-21

Chart 29. CIT General rate evolution

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

As we can observe, if the average of the analysed countries was to reduce their CIT taxation rate in 21 percentage points, Spain only reduced this in 5 percentage points.

- Fiscal Benefits

So which is the problem? We can arrive to the conclusion once again that, as in the case of PIT, the taxable base of CIT in Spain is affected by a large number of fiscal benefits. Concretely, these reach almost the 15% of the total collected. In the following chart we can see the most important ones:

CORPORATE INCOME TAX. FISCAL BENEFITS 2014 (Million euros)	
Taxable base adjustments	252
Deductions to reserve for investments in Canary Islands	113
Freedom to amortize and special amortizations	94
Rest of adjustments in the taxable base	45
Reduced rates	1.252
25% rate for SMEs	496
Rate reduction for SMEs for maintenance or job creation	366
Rate reduction for newly created organisations	176
Rest of applied reduced rates	214
Allowances on the total quota	188
Specially protected cooperatives	15
Entities operating in Ceuta and Melilla	23
Export activities and public-local service deliveries	29
Financial transactions	14
Shipping companies in Canary Islands	26
Tangible property produced in Canary Islands	59
Entities engaged to housing rental	22
Deductions in the total tax liability	1.618
SMEs benefit inversions	547
I+D+i activities	243
Outstanding sums of incentives for investment of previous exercises	339
Reinvestment of extraordinary gains	174
Canary Islands investments	108
Excepcional public interest events	77
Donations	67
Job creation for entrepreneur support agreements	40
Rest of deductions in tax liability	23
Total fiscal benefits for Corporate Income Tax	3.310

Chart 30. CIT fiscal benefits 2014

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

- Reform proposal

So once we have seen and analysed all this data, FEDEA presents a neutral reform for CIT. In this case, their proposal is to eliminate fiscal benefits and interests deductibility. They ensure that this measures would be able to leave a margin to reduce the taxation rate from 30% to 15%, maintaining the tax revenues without changes. This reduction would place Spain in a country with lowest taxation rates, very close to Ireland level (13%).

The expenditure on non-financial corporation interests with positive taxable base in 2012 was 33.844 million euros. If the expenditure on interests deductibility is eliminated the collection for Corporate Income Tax would will be increased in 9.000 million euros.

In 2012 Spain collected around 21.000 million euros through CIT. With the reduction of the rate to 15% both for companies that are levied with general rate and for those that are levied to reduce rate nowadays, they have estimated a collection decrease quantified on 9.000 million euros.

To sum up, with this changes the tax would be more simple and neutral. A part of this, it is foreseeable that this reduction of rate has a positive effect for the creation and growth of companies established in our country although collection is reduced.

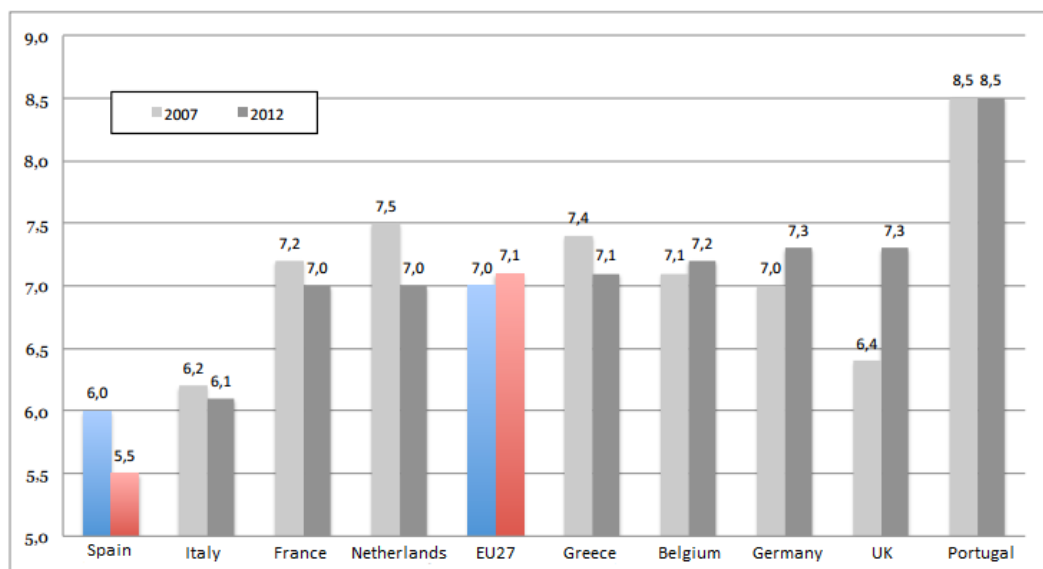
Value Added Tax

- Tax revenues

About the analysis of VAT tax revenues, we will see in this section that it is also low when we compare it with other EU countries.

This graph shows that VAT tax revenues as a percentage of GDP was 5.5% in 2012. As in the case of PIT and CIT it was lower than the average of EU that was around 7% of GDP.

Graph 8. Value Added Tax revenues (% of GDP)

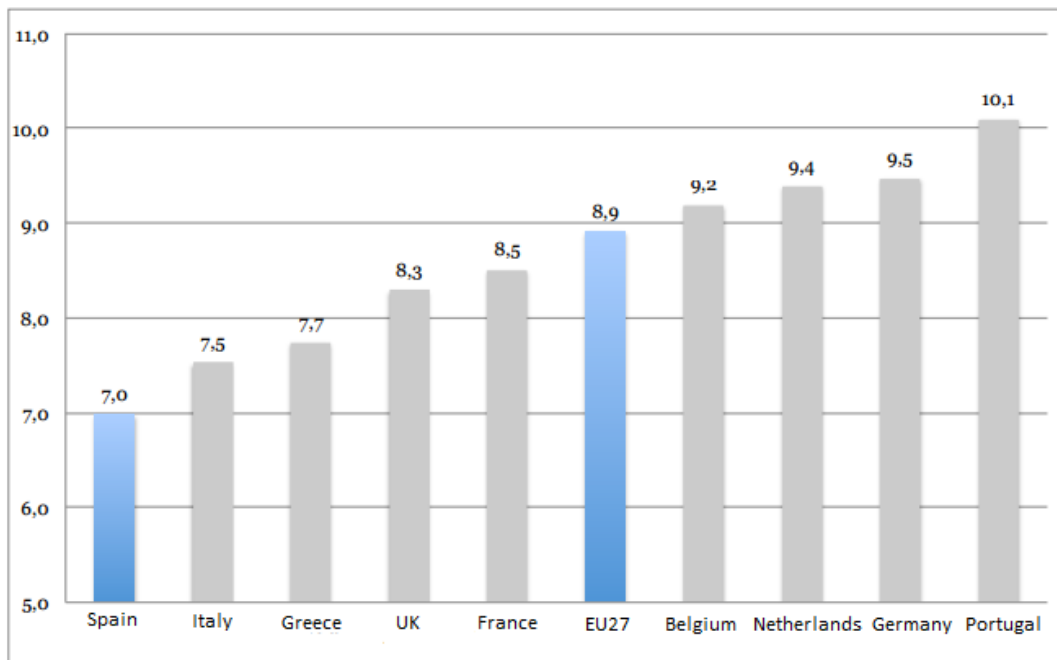


Graph 28. VAT revenues (% of GDP)

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

People can think that Spain collects less in VAT due to the fact that there is less consumption as a percentage of GDP. To analyse this point, we present the percentage of tax revenues for VAT on total consumption.

Graph 9. Value Added Tax revenues on total consumption (%)



Graph 29. VAT revenues on total consumption (%)

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

With this measure, Spain is also situated far from the EU average. In Spain VAT tax revenues represent 7% of the total consumption. However, in the UE this figure reach almost 9% of the total consumption.

- Taxation Rates

Like in PIT and CIT, this lower tax revenues are not explained on low taxation rates. As we can observe in the following chart, the VAT taxation rates are similar to the rest of European countries.

CHART 10. VALUE ADDED TAX RATES 2014			
	Superreduced rate	Reduced rate	General rate
Germany	-	7	19
France	2.1	5,5/10	20
United Kingdom	-	5	20
Italy	4	10	22
Spain	4	10	21
Greece	6.5	13	23
Portugal	6	13	23
Belgium	6	12	21
Netherlands	6	-	21

Chart 31. VAT rates 2014

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

- Fiscal benefits

So once again, the reason of the low tax collection are the fiscal benefits. Those fiscal benefits on VAT consist on exemptions and the application of reduced and superreduced rates.

As we can observe in the following chart, fiscal benefits reach 60% of total tax revenues for VAT

CHART 11. VAT FISCAL BENEFITS (Million euros)	
Exemptions	13.643
Superreduced rate 4%	5.552
Reduced rate 10%	14.062

Chart 32. VAT fiscal benefits, million euros

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

The total amount that represent exemptions (13.643 million euros) are so high, but are very difficult to reduce because main part are justified by European guidelines.

But as this reform proposal shows the exemptions are not the only problem. In 2010 only the 42% of consumption basket was levied with general rate of VAT whereas in Germany this same figure was 82%, in France 71% and Italy 58%. This means that the main part of products on Spanish consumption basket are levied with reduced rates and this is not happening in other countries of the EU.

- Reform Proposal

As we have already said, the core of this proposal is eliminating the reduced and superreduced rates. This means introducing a unique taxation rate for VAT. By this way fiscal benefits of reduced rates would disappear (concretely 14.062 million euros), and also the superreduced rate fiscal benefits (5.552 million euros). This data show that with this elimination VAT tax revenues would increase in 20.000 million euros (2% of Spanish GDP).

About exemptions, as they are difficult to modify, those would remain without any change.

As we have also mentioned, Spanish taxation rate is very near from the EU average, so their proposal is to maintain it in the actual 21%.

CHART 12. VAT PROPOSAL OF REFORM. TAX REVENUES INCREASE 20.000 MILLION EUROS				
		Before reform	After reform	Differences
Taxation rates	General	21%	21%	0%
	Reduced	10%	21%	11%
	Superreduced	4%	21%	17%
Fiscal Benetifs (Million euros)		33.257	13.643	19.614

Chart 33. VAT proposal of reform

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

It's important to note that in their estimation of tax revenues increasing they don't take into account the behaviour of consumers that could react with a fall in the consumption because now they have to pay a general rate for VAT that is 21% for all products. This means that it is foreseeable that the increment on VAT tax revenues, despite the positive effects in the neutrality of consumption, is not as high as they have estimated.

With this reform, all goods excepting the exempted ones, would be levied at 21%. As it has been advanced in the introduction this measure would be complemented with a system able to help those families with lower level of incomes. A possibility that they present for this system is increasing more the minimum exempted.

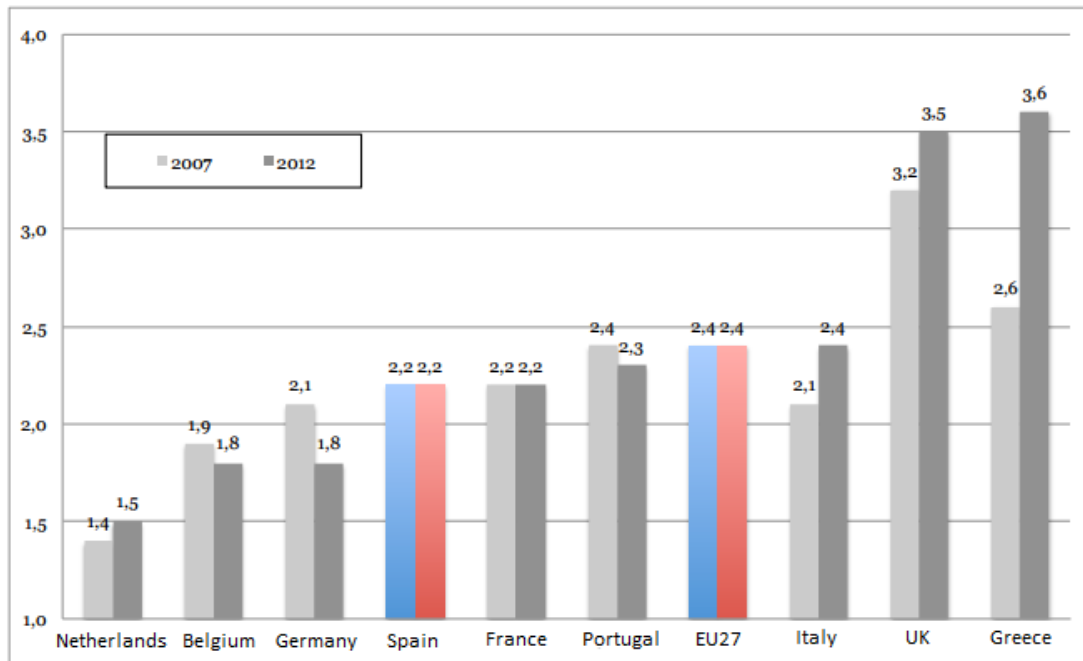
Excise Taxes

This analysis is parallel to the one that they have done with PIT, CIT and VAT. In this case the reform is justified because most part of products levied with excise taxes generate negative externalities. Alcohol and tobacco are harmful for health and hydrocarbon for the environment.

- Tax revenues

As we can see in the following graph, Spain have a tax revenues in percentage of GDP for Excise Taxes a little bit lower than the EU average (but the difference is not so important as in the other analysed taxes).

Graph 13. Excise Taxes revenues (% of GDP)



Graph 30. Excise taxes revenues (% of GDP)

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

To target the analysis in their proposal they only have been considered this three Excise Taxes because of their importance: Hydrocarbon, tobacco and alcohol.

We will see that in tobacco imposition we are just on the EU average. That's the reason why in this proposal they don't present any change. For hydrocarbon and alcohol they present changes, on both cases they talk about raising taxation rates.

- Hydrocarbon

As this chart shows, Spain is situated under the EU average in the tax revenues as a percentage of GDP for hydrocarbon. To simplify the exposition they focus their study on gasoline and diesel that are the main source of revenues.

CHART 14. HYDROCARBON EXCISE TAXES REVENUES 2013 (% OF GDP)					
	Unleaded gasoline	Diesel Auto	Liquefied petroleum gas appliances	Fuel oil	Total
Germany	-	-	-	-	1.30
France	0.27	0.84	0	0	1.11
United Kingdom	0.62	0.93	0	0	1.11
Italy	-	-	-	-	1.59
Spain	0.26	0.92	0	0	1.18
Greece	1.29	0.74	0.04	0.02	2.10
Portugal	0.42	0.76	0	0	1.18
Belgium	0.24	0.85	0	0	1.09
Netherlands	0.60	0.50	0.01	0	1.11

Chart 34. Hydrocarbon excise taxes

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Taxation rates

In this chart are shown the taxation rates of fuels (euros for every 1.000 litres). Unlike in the case of PIT, CIT and VAT Spain has low taxation rates.

CHART 15. TAXATION RATES ON HYDROCARBON . JULY 2014					
euros/1.000L	Gasoline		Diesel		
	Leaded	Unleaded	Automotive	Industrial	Heating
Germany	721	655	470		61
France	640	640	428	72	57
United Kingdom	787	674	674	130	130
Italy	731	731	620	186	403
Spain	458	425	331	85	85
Greece	681	670	330	330	330
Portugal	719	586	369	78	330
Belgium	638	614	428	23	17
Netherlands	846	759	478	478	478

Chart 35. Taxation rates on hydrocarbon 2014

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

As they are low taxation rates, there is margin to increase them, increasing this way the collection for this tax.

Fiscal benefits

Fiscal benefits for this type of tax are also substantial. Concretely, those reach the 19% of total tax revenues (1.900 million euros). Those benefits consist on exemptions, reduced rates and devolutions. Here we have the contribution of each one:

CHART 16. HYDROCARBON FISCAL BENEFITS 2014	
(Million euros)	
Exemptions	758
Reduced rates	907
Devolutions	231
Total	1.895

Chart 36. Hydrocarbon fiscal benefits

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Reform proposal

On the one hand, the proposal consist on raising the taxation rates for gasoline and diesel to 670 and 470 respectively (more concordant with other EU taxation rates). On the other hand fiscal benefits would be eliminated. The effects of this reform are presented on the following chart:

CHART 17. REFORM PROPOSAL ON HYDROCARBON				
		Before reform	After reform	Differences
Euros /1.000L	Unleaded gasoline	425	670	245
	Diesel	331	470	139
Fiscal benefits		1.900 million €	0	1.900 million €

Chart 37. Reform proposal on hydrocarbon

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

We can observe that this proposal increase tax revenues for this concept in 7.500 million euros (0.7 GDP percentage points). On the one hand 1.900 million come from the suppression of fiscal benefits and the other 5.600 million have been estimated applying the new taxation rates of 670€ for 1.000 litres of unleaded gasoline and 470€ for 1.000 litres for carburant consumption. They state that this raise would not affect the behaviour of the consumers because this products are characterized by an inelastic demand.

○ Tobacco imposition

In this tax, Spain is remarkable for collecting, as a GDP percentage, more than the most part of analysed countries.

CHART 18. TOBACCO TAX REVENUES 2013 (% OF GDP)				
	Cigarette	Cigars and Cigarillos	Other labours	Total
Germany	0.43	0	0.06	0.50
France	0.46	0.01	0.06	0.53
United Kingdom	0.51	0	0.07	0.58
Italy	0.61	0	0.03	0.64
Spain	0.61	0.01	0.06	0.68
Greece	-	-	-	1.37
Portugal	0.70	0	0.07	0.77
Belgium	0.42	0	0.11	0.54
Netherlands	0.27	0	0.10	0.37

Chart 38. Tobacco tax revenues (% of GDP, 2013)

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Furthermore, the taxation rates on tobacco are aligned with other EU countries. If we focus on cigarettes the rates in Spain are similar to the ones in Italy, Netherlands and Belgium.

CHART 18. TOBACCO TAXATION RATES. JULY 2014									
Euros/Kg	Cigarettes			Cigars and cigarillos		Hand-rolled cigarettes		Other labours	
	Euros/1000 u.	Proportional (%)	Total tax wit VAT (%average price)	Euros/1000u.	Proportional (%)	Euros/kg	Proportional (%)	Euros/kg	Proportional (%)
Germany	96	22	76	14	1	47	15	16	13
France	49	50	81	18	23	68	32	17	45
United Kingdom	221	17	86	275	0	216	0	121	0
Italy	13	52	76	-	23	-	59	-	25
Spain	24	51	79	-	16	22	42	-	28
Greece	83	20	86	-	35	157	-	157	-
Portugal	87	17	81	-	25	75	20	75	20
Belgium	24	50	77	0	10	15	32	15	32
Netherlands	174	1	78	0	5	76	5	76	5

Chart 39. Tobacco taxation rates

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Is for this two reasons that they don't propose any change in tobacco taxation. Anyway, they highlight that in case of need there is margin on this tax due to the low elasticity of this product.

- Tax on alcohol

Tax revenues

The following chart shows that tax revenues for alcohol are under the average of EU. For all analysed levied products Spain collect 0.10 percentage points of GDP whereas the average of analysed countries is 0.20.

	Beer	Wine		Intermediate products	Ethyl alcohol	Total
		Still	Sparkling			
Germany	0.02	0	0.02	0	0.07	0.11
France	0.03	0	0	0	0.11	0.15
United Kingdom	0.20	0.20	0.02	0.02	0.18	0.62
Italy	0.03	0	0	(*)	0.03	0.06
Spain	0.03	0	0	0	0.07	0.10
Greece	0.06	0	0	(*)	0.16	0.22
Portugal	0.04	0	0	0.01	0.05	0.10
Belgium	0.05	0.03	0.02	0.01	0.07	0.17
Netherlands	0.06	0.05	0	0	0.05	0.17

(*) Revenues of Intermediate products are included in Ethyl alcohol column

Chart 40. Alcohol taxation revenues

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Taxation rates

About alcohol taxation rates, Spain is one of the countries with lower imposition. In the case of analysed countries is the country with lowest taxation rates on almost every type of alcohol.

Euros/hectolitre	Beer	Wine		Other fermented drinks		Intermediate products	Ethyl alcohol
		Still	Sparkling	Still	Sparkling		
Germany	9	0	136	0	136	153	1.303
France	40	4	9	4	4	186	1.719
United Kingdom	132	334	428	334	428	445	3.535
Italy	32	0	0	0	0	81	942
Spain	10	0	0	0	0	61	913
Greece	31	0	0	0	0	102	2.450
Portugal	19	0	0	0	0	69	1.252
Belgium	22	57	195	57	195	120	2.119
Netherlands	38	88	254	88	254	149	1.686

Chart 41. Alcohol taxation rates

Source: FEDEA reform with Eurostat Data

(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Fiscal benefits

Fiscal benefits on alcohol reach 72 million euros. Those are, as we can see on the following chart, based on exemptions and reduced rates.

CHART 21. ALCOHOL FISCAL BENEFITS 2014 (Million euros)	
Exemptions	61
Reduced rates	11
Total	72

Chart 42. Alcohol fiscal benefits 2014

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

Reform proposal

They want to raise tax revenues because we are under the EU average. For this reason, they would be eliminated fiscal benefits on alcohol and would be imposed a tax on wine and fermented drinks that nowadays are not taxed.

CHART 22. REFORM PROPOSAL ON ALCOHOLIC DRINKS				
		Before reform	After reform	Differences
Rates €/liter	Beer (6 degrees)	0.1	0.3	0.2
	wine (13 degrees)	0	0.7	0.7
	Other alcoholic drinks (5 degrees)	0	0.3	0.3
	Drinks w/ high alcoholic content (40 degrees)	3.3	3.3	0
Fiscal benefits		72 million €	0	72 million €

Chart 43. Reform proposal on alcoholic drinks

Source: FEDEA reform with Eurostat Data
(<http://documentos.fedea.net/pubs/fpp/2015/02/FPP2015-02.pdf>)

The introduction of taxation in alcoholic drinks that had no imposition is justified on the low collection for this tax and because alcohol that contain wine is also negative as in other alcoholic drinks.

Due to the actual consumption of beer and wine, the collection through this reform could raise in 1.100 million euros (that is 0.1 points of GDP).

c. Personal Income Tax PP reform

When we talk about the actual reform of Spanish taxation system we also talk about Personal Income Tax reform, because is one of the taxes that has a greater need of substantial change. But is necessary to highlight that is very difficult to implant a substantial change in a personal income tax when the Spanish society is not developed enough in economic matters. Therefore, is necessary to known perfectly the budgetary situation of the country, especially if we face a public deficit that force to take efficient measures.

In this way, the report we will analyse later called "*Informe de la Comisión de expertos para la reforma Sistema tributario Español*" offers a range of objectives considered as essential ones for the Spanish economy. Leaning on IRPF, they search for growth in production and employment that are the basis for a country welfare and its inhabitants. The first thing that the commission think about what Personal Income Tax necessarily needs in Spain, is a substantial reduction of the tariffs. This reform is based on the elimination or reduction of fiscal expenditures, this means exemptions, deductions, allowances and other special circumstances.

On the other hand, it is necessary to perform a control of the work, achieving with these that all work is declared. By this way, tax activity of Spain will be also increased. By periodically controls they want to work in an unanimous way to look for a more efficiency in production and employment.

So the proposal of reform to achieve a better functioning of PIT that this report do is summarised into four big objectives:

- Redrawing the bases of the tax, involving this a reduction of the existing fiscal expenditures.
- Reduction of taxation tariffs with the objective of working with a more efficient and neutral tax.
- Implementation of measures that conduct to an exhaustive control of fiscal fraud, as the informal work, declaring legally and applying the law in all the realized works.

-Enhancement of saving and also a neutrality on the instruments used on the process.

All these objectives, must be of course adapted taking in account the fact that Spain is a country of the EU and must be accomplished the requirements related to budgetary consolidation.

There are five income stretches in Tax on personal income: from 0 to 12.450 euros there is applied a taxation of 20%, from 12.450 euros to 20.000 a 25%, from 20.200 to 35.200 euros there was a 31% of taxation and from 35.200 to 60.000 euros a 39%. From 60.000 euros and forward the taxation was a 47% in 2015. In 2016 the stretches will be reduced to: 19%, 24%, 30%, 37% and 45% regarding the quantities mentioned above.

Personal Income Tax is a progressive tax which is established in income stretches. The wage-earned that deposit a quantity of 60.001 euros will not have to pay a tax of 45% for all the incomes. First of all he will pay a 19% for the first 12.450 euros and from here successively till the last stretch in which he will pay a 45% tax.

- Deposits lower than 12.000 euros aren't withholding subject.

- The reduction for net income from employment for deposits below 11,250 euros is increased to 5,700 euros, a transition table for net income between 11,250 and 14,250 euros is fixed and reduced to 2,000 euros to 14,250 euros higher rents.

GENERAL TARIFF: REDUCTION TO 5 STRETCHES AND REDUCING TAXATION RATES		
Taxable Base	Taxation rate	
	2015	2016
Up to 12.450€	20%	19%
12.450€ - 20.200€	25%	24%
20.200€ - 35.200€	31%	30%
35.200€ - 60.000€	39%	37%
From 60.000€ on	47%	45%

Maximum rate is reduced from 52% (2014) to 45% (2016)
Minimum rate is reduced from 24,75% (2014) to 19% (2016)

Chart 44. PIT reform proposal of PP

Source: <http://www.eleconomista.es/espana/noticias/6261793/11/14/Asi-es-la-reforma-fiscal-de-Montoro-y-todas-sus-novedades.html>

- Personal minimum is increased from 5.150 to 5.550 euros
- Familiar minimums increase up to 32%
- Large families or with children or ascendants with disability receive 1.200 euros, can be accumulated up to 4.800 euros if any of this situations are happening together.
- Compensation exempt for dismissal is amplified to 180.000 euros and it's permitted the reduction of 30% is permitted if the compensation is perceived in a fractionated way.
- Reduction for irregular rents decrease from 40% to 30%.
- Reduction for housing rent it's amplified to 60% for the hirer.
- The reduction for irregular incomes taxation decreases from 40% to 30%.
- Expands to 60% the deduction for rental housing landlord.
- It disappears the deduction for tenants for rental residence, except for contracts before 2015.
- Tax penalty on sale's housing gains becomes soften, so that the houses purchased before 1995 which are sold for less than 400.000 euros prevent tax increase.
- The taxation for saving incomes will be reduced to a bracket from 20% to 24% and from 19% to 23% in 2016.
- The maximum tax-deductible contribution to pension is 8.000 euros.
- Capital gains generated over 65 years are exempt if they are converted into annuity.
- The minimum period of an individual systematic savings plan (PIAS) is reduced from 10 to 5 years.
- Pension amounts corresponding after 10 years can be rescued.
- Income's derived by bank accounts or life insurance maintained for a minimum of 5 years and if they don't provide more than 5.000 euros per year, are exempt.

- The dividends' exemption till 1.500 euros is deleted.
- It is eliminated the distinction for the capital gains harvested in less than a year, which were taxed at the marginal rate of the taxpayer and will become to do it in savings' kind.
- The autonomous professionals' retention with incomes less than 15.000 euros decreases from 21% to 15%.
- In 2015 it is reduced from 21% to 19% the percentage of withholding and account applicable to professionals and self-employed, and is lowered in 2016 to 18% withholding tax and income to account for these returns.
- The "module" system is limited to 150.000 euros and 150.000 euros expenditure's revenue, and autonomous which bill less than a 50% to individuals are excluded.

d. Different political parties' proposals:

In this part we are going to see which were the fiscal reform proposals that each political party presented before the last elections.

I. PP

Descent the Cultural VAT

Together with the tax reform, the Spanish government manages new taxation reductions to face the next general elections. The rising of tax incomes to 174.987 million (a level of revenues that wasn't seen since the years before the crisis), and the forecasts of growth make this measures possible.

As this political party advanced recently, the idea is to reduce VAT for cultural shows from the current 21% to the 10%. It's important to know that before the raise of the imposition in 2012 for this tax, the tickets for the cinema, concerts and others are levied at 8%. This reduction would also benefit "Spanish bulls", hairdressers and Para pharmacy products.

Second part of the tax reform

The Spanish tax reform would come into effect in two times: the first part in 2015 and the second in 2016. For the second part, the Personal Income Tax will reduce its marginal tax rates from 20% - 47% (where it moves around nowadays) to 19%-45%. This reduction will be applied in the 50% of the scale that controls the State, whereas the

other half of the tax will depend on the autonomous communities. They also want to reduce the nominal rate in 2016 to 25% (In 2015 it was reduced from 30% to 28%).

Model of financing

The plan of the government contemplates to approve the tax reform together with the one of the autonomic financing system. Nevertheless, this one will be prorogued and "Hacienda" will evaluate the new model of financing since July 2016.

II. PSOE

Put at the same level the tax on personal income for savings and work

As the PSOE secretary of Economy (Manuel de la Rocha) ensures, the electoral program of this political party pretends to collect more money to reduce the deficit and maintain the welfare state. In order to do this, PSOE wants to integrate the Tax on Property in the Personal Income Tax. In addition, PSOE also wants to put at the same level the taxation rate on work and the savings one. The purpose is to achieve that people of middle class pay less and people of high class pay more than what are nowadays paying.

About the Tax on inheritances and donations, De la Rocha explains that they pretend to introduce an elevated minimum, << this has to be sufficiently high, because the middle class has not to be affected >>. <<Below this minimum, the autonomous regions won't be able to diminish it more >>.

Finally, PSOE wants to establish on Corporate Income Tax a minimum compensable tax rate of 15% that will facilitate to remove a large number of deductions. Also they purpose to diminish the cultural VAT at 5%, as well as sanitary products like nappies for babies.

An independent tax agency

PSOE also adds a petition in which they want that organization of inspectors of "Hacienda Española" choose the director of the Congress of Representatives. This one would be elected for six years (more than a legislature). In addition, they would like to eliminate political charges to ensure the independence of the Tax Agency.

About the SICAV (type of collective inversion society in which big fortunes levy at 1%), De la Rocha ensures that they will not raise the taxation but they will fight against fraud

committed through this societies, competing with the Tax Agency. Finally, they ask for the names that accepted the tax amnesty.

Federal and transparent system

PSOE would like to do a federal reform, ideally accompanied by a Constitution reform. They want to improve the predictability of the system, erasing the two existing years between the collected revenues of the State and the liquidation with the autonomous regions.

III. Podemos

To convert the Personal Income Tax, on an extensive tax.

This political party led by Pablo Iglesias defends to convert the Personal Income Tax into an extensive tax that subdue to a same tariff all the tax rates of income (saving and working). In addition, they purpose to finish with the system of units.

They also suggest to eliminate deductions as the tax exemption for joint taxation for matrimonies. A part from this, they ask for a rising in the taxation rate of Corporate Income Tax for big companies.

Many of the fiscal proposals that the political party carried in the European have disappeared in the document elaborated by the economists “*Vicenç Navarro*” and “*Juan Torres*” like an IVA of 35% for the luxury products or the suppression of SICAV.

Tax on wealth

“Podemos” also require the recuperation of this tax, in addition they want to ensure that regarding to wealth there should not be big differences between autonomous communities.

IV. Ciudadanos

General VAT of 18% and reduced VAT rate of 7%

This political party led by Albert Rivera purposes consists on reducing the general rate of VAT from the actual 21% to 18%, and change the reduced one from 10% to 7%. Also they want to eliminate the super-reduced rate of this tax where all basic necessities tribute on.

This partial increase of VAT will be applied together with a decrease of PIT, that will reduce the number of tranches from the actual 5 to 3.

The rates will remain in 18% until 22.500 euros, in 28% between 22.500€ and 75.000€ and 42% from 75.000€ on.

Concerning to CIT, "Ciudadanos" pretend to reduce the nominal rate from 28% to 20%, but deleting deductions and applying the same rate for small businesses and large corporations. This would cause an increase of tax revenues for this tax of 4.534 million euros.

In addition, they suggest a Capital Gains Tax³⁶ with reduced rates compared with the actual ones and a minimum exempted of 1 million euros. This exempted minimum will recur on the inheritance and donations tax, that they would harmonize it between communities.

Supplementary income

Furthermore, this political party proposes a supplementary income for those who earn less with a cost of 7.800 million euros. This complement can achieve the 5.500 euros for household.

Fight against fraud: collect 22.000 million

Last year the "Agencia Tributaria de España" collected an historical maximum in the fight against fraud: 12.318 million euros. Ciudadanos promises to increase this number to 22.000 million. To do this, they want to control the SICAVs through the Tax Agency and not through the CNMV ("Commission Nacional del Mercado de Valores").

Similarly, they will ensure that the ones who host to tax amnesty of 2012 pay for a 10% of what they declared to "Hacienda". If this was the rate that tax authorities mark to regularize, it made it to not prescribed exercises, and entailing a finally paid rate of 3%.

³⁶ "IP. Impuesto Sobre el Patrimonio "

7. Conclusions

- High rates – low tax revenues

Spanish contributors suffer a heavier tax charge compared with other European countries, as shows the comparative between the three most important taxation figures of the system: Personal Income Tax, Value Added Tax and Corporate Income Tax. Personal Income Tax in Spain is the third highest tax of Eurozone as shows the data collected in Eurostat. The maximum taxation applied in Spain (52%) is very far from the euro-zone average (43.4%).

Value Added Tax maximum rate in Spain is also beyond the Eurozone average. Maximum tax rate applied in Spain is 21% whereas the Eurozone average is 20.5%. In this case, the differences are not so pronounced as in the case of PIT.

About CIT, Spain has the sixth highest maximum rate in Eurozone (30%). Only being passed by France (36.1%), Malta (35%), Belgium (34%), Portugal (31.5%) and Italy (31.4%). Furthermore, Spain is so far from the Eurozone average, situated in the 25.3%.

On the other hand, if we compare the Spanish tax revenues in percentage of GDP with other countries of the Eurozone the results are shocking. The Eurozone average in 2014 (the last data was in 2014) was 46.2% of GDP, whereas the tax revenues in Spain in percentage of GDP was 37.1%. Only three countries (Latvia, Ireland, and Slovakia) collected less than the Spanish taxation system.

As he have seen in the essay, the great recession affected Spain more than the most part of European countries, and that can explain this figures but neither in good economic times Spain has collected more than this European countries. To take an example, in 2007 (in the peak of the housing bubble) tax revenues in Spain represented the 41.1 of the GDP whereas the Eurozone average was 45.3%.

If we focus in each tax individually, as FEDEA reform does, we can see that tax revenues of each analysed tax is also under the EU27 average (that is the reference that this reform take into account).

- Great recession has shown the existing tax system gaps

As we have seen in this project, in the part where we analysed the effects of the great recession to the public sector, it has become clear that the figures that Spain presented were so far from the figures of other countries in the European Union. If Spain presented a public surplus in 2007 of 2%, this become a deficit of 11.1% in 2009. This represents in two exercises a variation of 13.1 negative percentage points.

On the other hand, if we analyse the EU27 average, we found that in 2007 the average was a deficit of 0.9%, and average falls to a deficit of 6.8% in 2009, but very far from the 11.1% of Spain.

So seeing this data, the conclusions are that if great recession has affected so much Spain in comparison with other countries this means that Spanish taxation system has unquestionable problems.

- Tax structure comparison with Germany, France and Italy

The first thing we can observe in the comparison of Spain, Germany, France and Italy from 2005, 2010 and 2014 is that in all the analysed years the Value Added Tax occupies the first position in the tax structure followed by the Personal Income Tax.

We must consider that in four countries for three analysed years VAT and PIT have an important weight compared with the other analysed taxes such as CIT, Tax on Property and Other taxes. But it has to be said that in Germany, the weight of VAT is almost the half of total tax revenues whereas in Spain this figure around 40%.

About PIT, we can also conclude that in Germany this tax represents 40% of the total collection and in the other analysed countries this tax is at least 10% less than in Germany.

This means that although all countries have VAT and PIT as the most important taxes, in Germany these two taxes exceed 90% of total tax revenues and this is far from what these two taxes represent in the other three countries.

- Guiding principles of a good taxation system are not accomplished

As we have seen in this essay, a good taxation system should have four basic guiding principles. So in the conclusion we think it is interesting to discuss each principle if this really fits in the Spanish taxation system.

-In the first place we have the efficiency principle that the objective of that is that taxes don't distort the behaviour of the agents. We think that this principle is not being accomplished in Spain. As we have seen Spain has, in the most important taxes (PIT, CIT, VAT), higher maximum rates than the main countries of the Eurozone. Of course that if Spanish contributors (or companies in Spain) realize that they are being levied with higher taxation rates than in other countries, they will try to avoid tax expenditure in any way or another.

-On the second place we have the equity principle, which is based on the principle of "ability to pay", so tell that taxes will be paid depending on the economic capacity of the contributor. But as we have seen, this principle is not accomplished in the Spanish

taxation system. As it has been corroborated, big fortunes and multinationals have a minor fiscal charge than the other ones and that is why we affirm that the Spanish Tax system doesn't accomplish this principle, because in many cases big fortunes pay less taxes than the rest of society. To do this, we have seen that they use collective investment societies (that result that are not "collective" because are controlled by a family or even by a unique person).

-On the third place, the simplicity principle tells us that there is a desire of a broad-based taxes to accomplish simplicity. We have seen that this principle is not accomplished in Spain due to the large number of exemptions, deductions and allowances that make that the bases get narrow.

-Finally, the flexibility principle that is referred to a group of taxes that must be adapted to changing circumstances of economy, allowing to collect more on growth periods to reduce the impact of recession years. As we have seen, this is not fulfilled in Spain because we have seen that Spain has been one of the countries that has been most affected by tax revenues and deficit the years after the great recession, revealing the important gaps that this taxation system have.

A part of not accomplishing any guiding principle, as we could see in our project Spain has an elevated quantity of fiscal fraud and in consequence the total amount of non-observed economy is also high.

We have analysed different indicators which have driven us to these conclusions:

- First of all, the circulation of 500 euros' banknotes is really high. In Spain there is a 73,70% of cash in circulation which represents a 14% of the total of 500 euro banknotes that surround the euro on the total of the European Union. This is a good measure to quantify the underground economy because as more effective circulation there is in a country, more irregularities are probable to be developed.
- On the other hand in Spain there are few internet transactions. The use of transactions through the internet helps to do clear operations and avoids the option to commit fraud. Northern countries such as the Netherlands, Finland and the United Kingdom, which realize a huge number of online transactions (between 280 and 400 transaction per habitant) and in consequence they have a quite reduced rate of non-observed economy. On the contrary we find economies like the Spanish one and other Southern European countries such as Italy or Portugal which have a high rate of non-observed economy and they

generate few online transactions during a year (between 280 and 400 transaction per habitant).

- What is more we have discovered than Spain is one of the European Union country which has less workers in the Public agencies such as the Tax Agency in order to fight against fraud. If we compare this index with other countries, we observe that Spain has only one employee for every 1.928 taxpayers and on the contrary countries like France has one Tax Agency's employee for 860 contributors, Germany has one worker for every 729 taxpayers and Luxembourg has one worker for 551 contributors. So we can extract from this data that there is not a high willingness to eradicate fiscal fraud.
- Another important problem that is present in our country is that in Spain there is very few will to fight against fiscal fraud by population. Northern countries are more predisposed to pay taxes but on the contrary the Southern ones aren't.

A personal appreciation that we want to do about that matter is that in our country the fact of committing tax fraud is generally extended and also quite tolerated. Every day there are news in which tributary fraud takes part in, there are many cases in which politicians, famous people and also the monarchy are implied. These facts cause impotency and anger to the population and maybe it is one incentive for citizens to commit fiscal fraud too. It is completely unfair that citizens who are obliged to pay taxes have to pay the irregularities that the high institutions of our country commit and it is certain that if politicians and people who are supposed to rule and control our country rob to the population, it is not fair that they pretend to give us moral lessons.

- Final conclusion – need of reform

So as a final conclusion we can say that there is a large group of international agencies, economists and experts that evaluate and analyse economic-financial world and that have made a lot of recommendations in terms of taxation in Spain due to the problems that this taxation system suffers.

In this work we have tried to do our personal analysis and we have analysed the two most important reforms existing in Spain.

But before explaining the reasons why we think that Spain needs a tax reform we have found important to highlight the fact that Spain is submerged in an excessive deficit procedure (Situation that occurs when public deficit is higher than the 3% of GDP).

According to this in 2015 Spain present a deficit of 5.2% of GDP (very far from what was expected, a 4.2%) and creating the worst expectations.

The objective for 2016 is to accomplish a rate of 2.8%, but a report of AIREF (*“Autoridad Fiscal Independiente”*) reveals a forecast of public deficit rounding the 4%, very far from the 2,8% committed with Brussels.

Having in account this fact, is normal that a large quantity of recommendations emerge. All this recommendations recognise the need of introducing some modifications with the objective of reducing and try to overcome insufficiencies.

As we have seen, we face a system that counts with narrow tax bases due to the existence of a wide range of exemptions, deductions and allowances applied to the contributor, maintaining this way a high rates.

A part of this, we have seen that Spanish taxation system is not characterized by equity, because big fortunes (through taxation engineering) levy a lower rate than other people. So seeing this, the need of a reform is every time more expected both in Spain and the European institutions. This reform has to generate a more efficient and equal taxation system, because if this objective is not accomplished the Spanish economy won't be boosted.

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