The Council of Ministers approves an urgent decree

The Government strengthens tax revenue collection to ensure deficit targets are met

- General VAT is to go up from 18% to 21%, and the reduced rate from 8% to 10%. The super-reduced rate stays at 4%. Some goods and services are to be reclassified to fall under the new general rate. The tax changes will come into effect in September.
- With regard to corporate income tax, payment instalments are to be raised for large companies and the deductible limit for financial expenses is to be extended.
- With regard to personal income tax (IRPF) the allowance for purchasing a first home is to be withdrawn as of 1 January 2013.
- Withholdings for professional activities will go up from 15% to 21% until 31 December 2013. The tax on tobacco products is to be revised and there will be changes to environmental taxes.

13 July 2012. The Council of Ministers has today approved a royal decree law on urgent measures and has examined a report on a supplementary draft bill in order to ensure the public deficit reduction targets are met and to promote competitiveness. The evolution of public revenues means additional measures are required to secure fiscal consolidation and, through this, to pave the way for economic recovery.

These measures affect VAT, corporate income tax, and to a lesser extent, personal income tax and the special taxes. The aim is to increase indirect taxation at the same time as laying the foundations to reduce direct taxation by 2013, particularly with regard to social security contributions.

With regard to value added tax, the Government has taken into account the fact that Spain currently collects less in VAT revenue in relation to GDP than any other country in the European Union. In order to bring tax rates closer to those applied in the EU, as recommended by the European Commission, the Government has decided to raise VAT from 18% to 21%. The reduced rate will go up from 8% to 10%. Both rates now reflect the EU average. The super-reduced rate of 4% which affects essential goods and services, will remain the same.

Furthermore, given that, in the EU, greater specific importance is being placed on goods and services taxed at the general rate, the Government has decided to reclassify certain goods and services. This will see the following goods and services move from the reduced to the general rate: flowers and ornamental plants, mixed hotel services, theatre and circus tickets and tickets for other shows, digital television services, funeral and hairdressing services, the purchase of works of art, services provided by artists and broadcasting services.

This means that the vast majority of reduced rate goods and services will stay at that rate under the current VAT bill. These include tourism services, transport and weekly shopping costs, and devices for correcting physical impairments such as graduated glasses and contact lenses.

All home purchases and home rentals with the option to buy, which had been taxed at the super-reduced rate of 4%, will now be taxed at the 10% rate. Home renovation and repair works which up to 31 December had been taxed at the reduced rate of 8% since April 2010, will be taxed at the new reduced rate of 10% up to the end of 2013.

COMING INTO EFFECT ON 1 SEPTEMBER

Changes to the VAT rates mean changes to the additional VAT scheme, which is paid by independent retailers who sell to an end customer. The 1% and 4% rates will go up to 1.4% and 5.2%, respectively. The rates of the special regime for agriculture, livestock and fishing will go up from 8.5% to 10.5%, and from 10% to 12%.

The VAT rises will not come into effect until 1 September to give the economic agents affected time to adapt to the new rules. They will be accompanied by a reduction in social security contributions in 2013 and

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2014. Throughout this process, the Government has taken into account sectors that are key to the evolution of the economy and a return to economic growth, such as tourism.

COMPANIES

With regard to corporate income tax, the decree focuses on large companies with the capacity to shoulder the new tax collection efforts in order to achieve the public deficit reduction targets. Specifically, in 2012 and 2013 there will be a limit on the offsetting of tax loses for companies with a turnover of more than 20 million euros.

Payment instalments will also increase temporarily. The minimum amount to be paid will increase from 8% to 12%. The applicable rate will also increase for businesses with a turnover of more than 10 million euros.

On the other hand, the limit on the allowance for financial expenses will be increased, extending it to all companies in general, without them having to belong to a corporate group. Furthermore, a new 10% tax rate has been set for income from a foreign source, exclusively until 30 November 2012.

Income Tax

With regard to personal income tax, there will be a temporarily increase from 15% to 21% on withholdings for income from professional activities and payments on account for work related to providing courses, seminars or lectures up to 31 December 2013.

The decree and the draft bill also include new rules relating to the allowance for buying a home. It will mean that the tax allowance will no longer apply to homes purchased after 31 December 2012.

TOBACCO

With regard to special taxes, the Government has introduced various changes to the tax on tobacco products. The decree introduces a minimum rate for cigars and cigarillos of 32 euros per 1000 units. As for cigarettes, the minimum taxation rate has been raised to a single rate of 119.1 euros per 1000 units. However, the proportional rate is down. In the case of rolling tobacco, the minimum tax rate is up and is set at 80 euros per kilo.

As regards energy taxation, the Government is studying a series of tax changes that will help to place a greater tax burden on the people or companies who are the biggest polluters. The changes will be introduced in the aforementioned draft bill, which is currently being studied.

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