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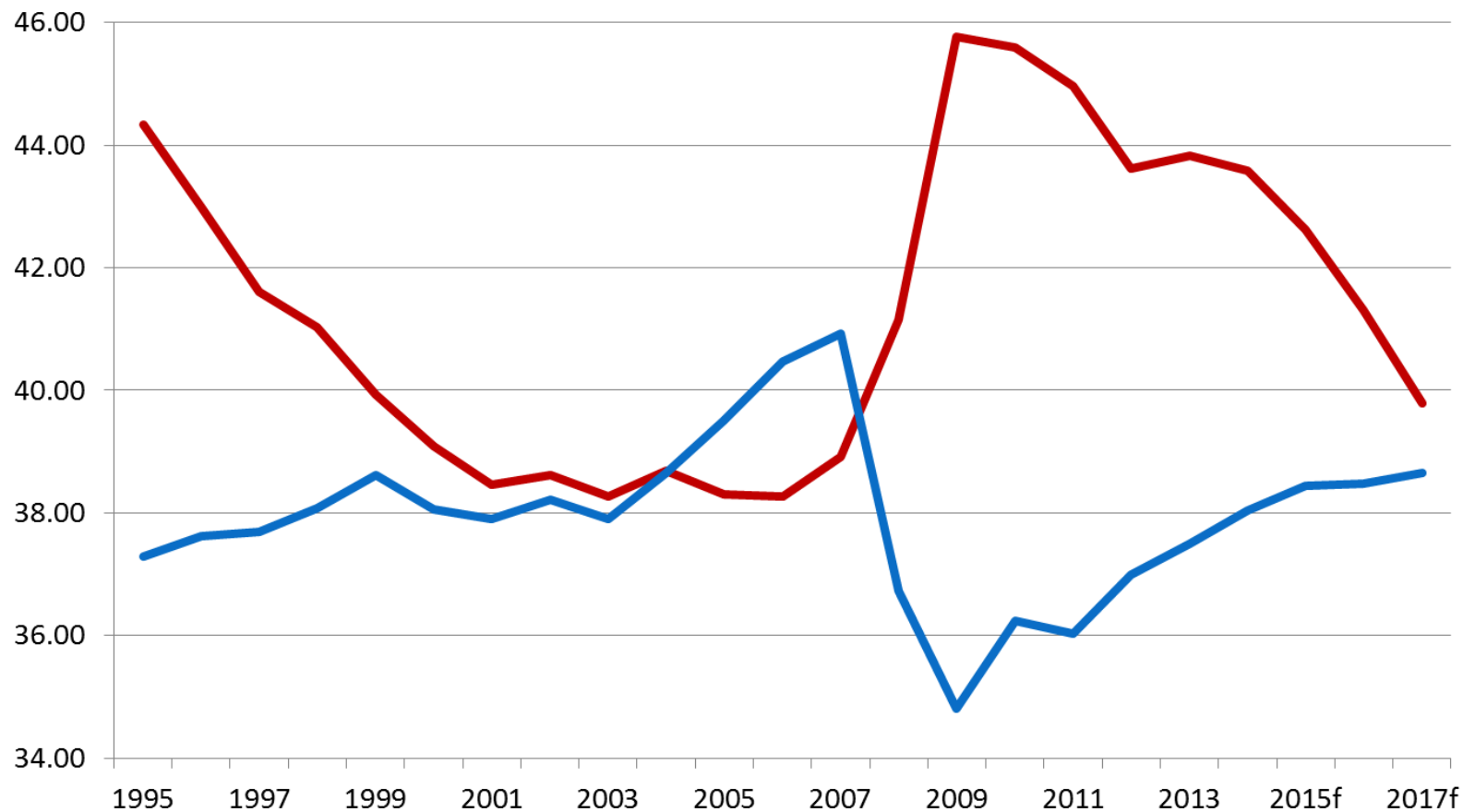
Tax Reform



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Development of public revenues and expenditure in Spain (1995-2017)



* ESA 2010.

Expenditure not including one-off financial assistance

— Expenditures (% GDP)

— Revenues (% GDP)

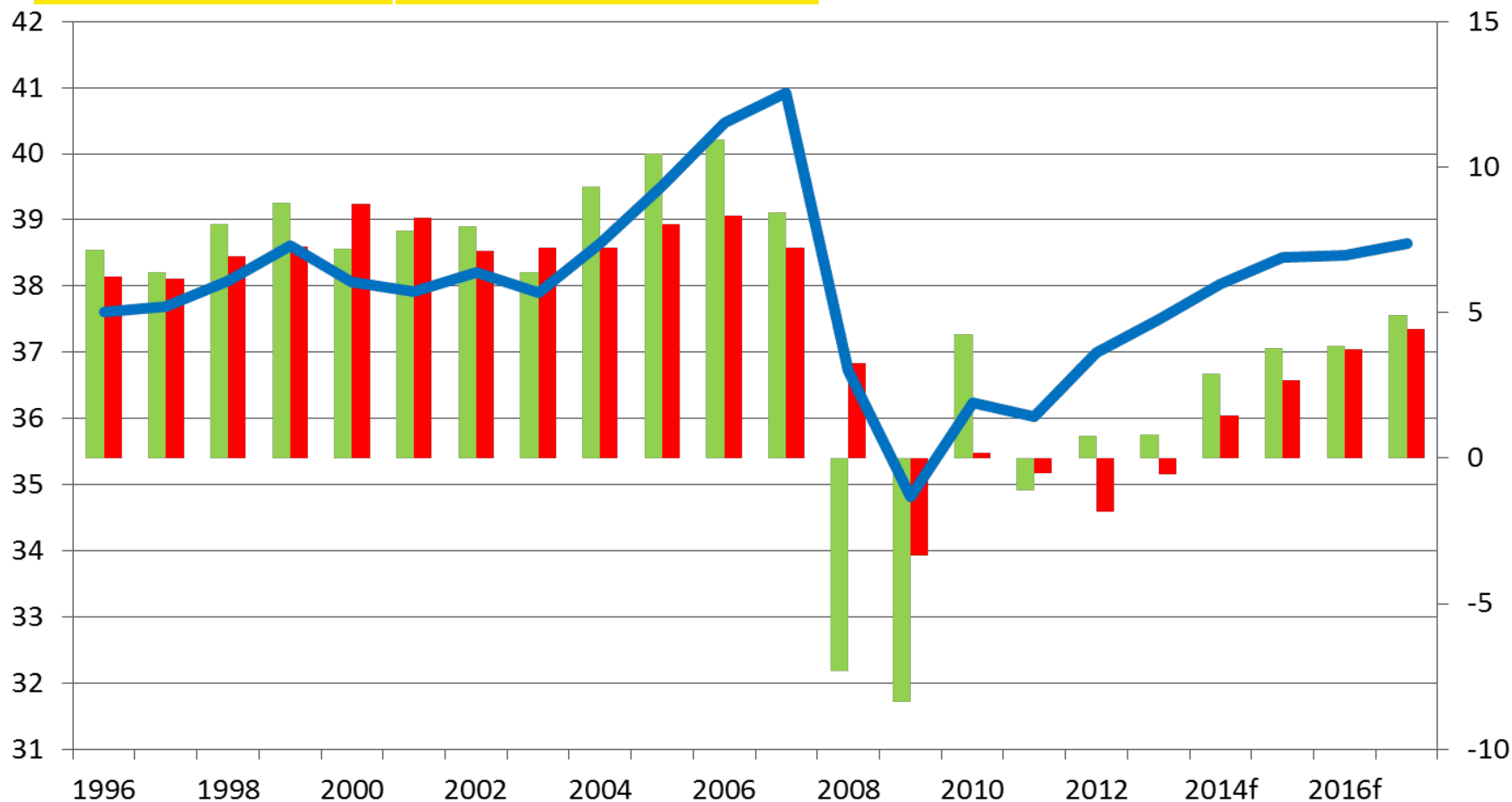


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REVENUES

National Accounts



Revenues (y-o-y % change) right axis

Nominal GDP (y-o-y % change) right axis

Revenues (% GDP)

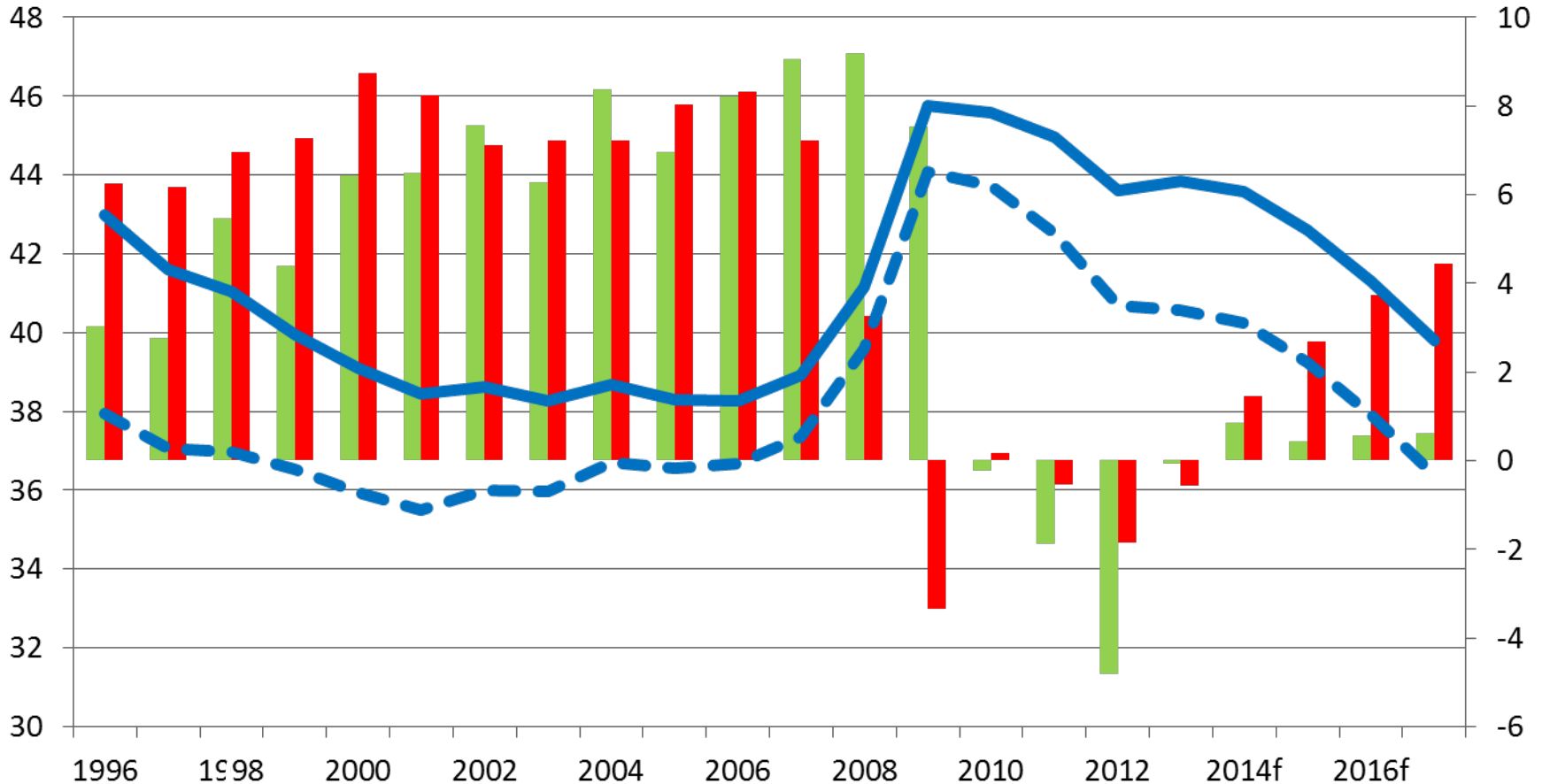
* ESA 2010.



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EXPENDITURE National Accounts



*ESA 2010. Expenditure not including one-off financial assistance

■ Expenditures (y-o-y % change) right axis

■ Nominal GDP (y-o-y % change) right axis

— Expenditures (% GDP)

— Primary Expenditures (% GDP)

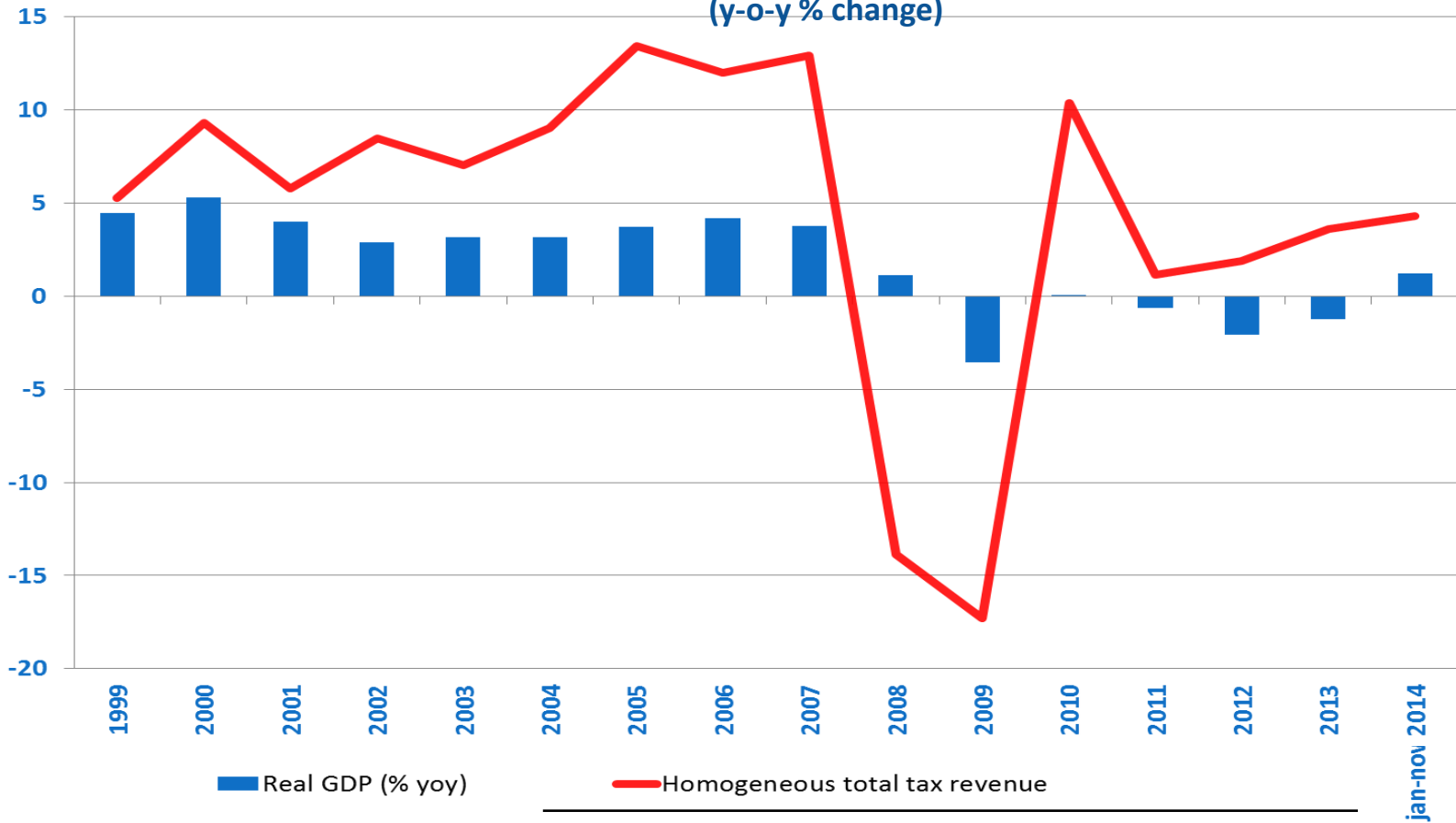


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Tax Revenue Recovery

Real GDP growth and tax collection.
(y-o-y % change)



	2009	2010	2011	2012	2013	Jan-Nov 2014
Annual growth homogeneous tax revenues	-17.3	10.4	1.1	1.9	3.6	4.3

Source: AEAT



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OBJECTIVES OF THE TAX REFORM

- To boost **job creation**. To reduce taxation on income from employment and to strengthen **competitiveness**.
- To revitalise the economic **growth**. Modernisation of the tax system to promote savings and investment.
- Towards **a more equitable tax system**. Highest reduction for low and middle incomes, social benefits for families with children and/or disabled members, and new measures to fight against tax fraud. Stimulus to patronage.



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PIT



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PIT: GENERAL REDUCTION

- **Average reduction of 12.50% for all taxpayers.**
- **Average reduction of 23.5% for 72% of taxpayers (those deriving income up to EUR 24,000).**

	2015/2014	2016/2014
- TOTAL AVERAGE REDUCTION	-8.06%	-12.5%
- Up to <u>24.000 €</u> per year	-19.03%	-23.47%
- Up to <u>18.000€</u> per year	-26.58%	-31.06%



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PIT: GENERAL TAX RATE

General tax rate: simplification to 5 brackets and lower rates

Tax Base	Tax Rate	
	2015	2016
Up to 12,450	20%	19%
12,450 - 20,200	25%	24%
20,200 - 34,000/35,200*	31%	30%
34,000/35,200 - 60,000	39%	37%
60,000 - Onwards	47%	45%

* Up to 34,000 in 2015 and 35,200 in 2016

Reduction of maximum rate from 52% in 2014 to 45% in 2016 (as in 2011)

Reduction of minimum rate from 24,75% in 2014 to 19% in 2016 (vs 24% in 2011)



PIT: GENERAL TAX RATE

General tax rate: greater reduction of the tax gap for low and middle incomes

Total return from employment	Average rate 2011 on net return	Average rate 2016 on net return	% difference	
			2016-2014	2016-2011
12,000	2.70%	0.00%	-100.00%	-100.00%
15,000	10.24%	8.16%	-22.82%	-20.31%
20,000	14.00%	12.48%	-13.54%	-10.84%
30,000	18.44%	17.58%	-9.01%	-4.63%
40,000	21.26%	20.73%	-7.73%	-2.47%
50,000	24.52%	24.11%	-7.66%	-1.70%
100,000	33.48%	33.64%	-7.12%	0.47%
150,000	36.88%	37.49%	-6.76%	1.67%



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PIT: INCOME FROM SAVINGS

Reduced rates while keeping progressivity

Tax base	Rate			
	2011	2014	2015	2016
Up to 6,000	19%	21%	20%	19%
6,000 – 24,000	21%	25%	22%	21%
24,000-50,000	21%	27%	22%	21%
50,000 - Onwards	21%	27%	24%	23%



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PIT: SOCIAL BENEFITS

Significant increase up to 32% of the minimum living allowance for families

	PIT'14	PIT'15	Δ	
	Amounts		Absolute	%
Descendants	1º: 1,836	2,400	564	30.72%
	2º: 2,040	2,700	660	32.35%
	3º: 3,672	4,000	328	8.93%
	4º: 4,182	4,500	318	7.60%
Children under 3 years	2,244	2,800	556	24.77%
Ascendants / aged > 65 > 75	918	1,150	232	25.27%
	2,040	2,550	510	25%
Disabilities > 33% < 65% < 65% + reduced mov > 65%	2,316	3,000	684	29.53%
	4,632	6,000	1,368	29.53%
	9,354	12,000	2,646	28.29%



New social benefits for large families or those with disabled people in charge.

Tax benefits for working mothers remains, and new types of social protection are provided for (negative taxes):

1. Families with dependent children with disability degree over 33%,
2. Families with dependent ascendants with disability degree over 33%,
3. Large families:
 - 3 or more children
 - 2 children, one of them with a disability degree over 33%,
4. Special large families:
 - 5 or more children
 - 4 children, at least 3 of them born in multiple birth or coming from multiple adoption
 - 4 children and annual income not exceeding 75% of IPREM (Public Income Indicator of Multiple Effects) .

Amount : EUR 1.200 per year, cumulative for each family situation met.



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PIT: SOCIAL BENEFITS

Concerning the new **negative taxes** (benefits for large families or those with disabled people in charge):

- The thresholds will be individually implemented (for each child, ascendant, family) and not by each circumstance met (descendants, ascendants, family).
- Included the large family category consisting of full orphans.
- Possibility to assign rights between taxpayers by joint request, to ease management by tax authorities.



PIT: Self-employed

- **Withholdings for professional self-employed are reduced from 21% to 15%** if total income is lower than EUR 15,000 provided that more than 75% of their income shall derive from business activities.
- For higher incomes the withholding rate is reduced to 19% in 2015 and 18% in 2016.
- **The reduced taxation (15%) for new enterprises remains**, (established by the Entrepreneurs Law).
- Reduction of the upper threshold to file tax returns under the **Objective Evaluation** system: revenues from EUR 450,000 to 150,000; expenses from 300,000 to 150,000.



➤ **New investment vehicle “Ahorro 5”**

- a) New Long Term Saving Plans are created as an alternative to other tax-benefited saving instruments
- b) They may take the form of bank account or insurance
- c) Exemption on capital gains
- d) Minimum 5-year holding.

➤ **Pension plans:** Single maximum contribution EUR 8,000 per year.



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TAXATION OF SAVINGS

- (From 1st January 2015) Possibility to redeem contributions to **pension plans** after the expiry of a 10-year term. Taxation upon redemption.
- Reduction from 10 to 5 years of the minimum term before setting up the annuity income in **Systematic Individual Savings plans**.



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TAXATION OF SAVINGS

- Taxpayers **over 65** will not be taxed on capital gains from the sale of movable or immovable properties provided that the gain is reinvested in a **life annuity**.
- Life annuities are subject to PIT within the savings taxable amount. The taxable income is determined as a percentage of the annuity, ranging from 24 to 8, depending of the age of the beneficiary when setting up the annuity income.
- Maximum limit of contribution: **EUR 240,000**.



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Stimulus to patronage

- **5 percentage points** increase in deductions in PIT for **donations**, in general terms.
- In order to promote steadiness in these contributions, this percentage is additionally increased in another 5 percentage points: It will be necessary to maintain the contribution for 3 years. Available for legal persons.
- Micro-patronage: for donations up to EUR 150 a 75% deduction rate is established aimed at broadening social participation. Donations exceeding that amount will be eligible for increased deduction rates .



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CGIT



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CIT: IMPROVEMENT OF COMPETITIVENESS

- **Tax rate reduced (from current 30%):**
 - ✓ In 2015 the tax rate will be 28%.
 - ✓ In 2016 the tax rate will be 25%.
- **The tax base is broadened to bring the effective rate closer to nominal rate.**
- **Deductions linked to R&D&I remain and step up, and a new capitalization reserve is set up.**



CIT: SUPPORT FOR SMEs

➤ **Tax rate reduction:**

- ✓ In 2015 the tax rate will be 25% on the first EUR 300,000 and 28% on any exceeding taxable amount (current rate: 30%).
- ✓ In 2016 the rate is to be definitely fixed at 25%.

➤ **New equalisation reserve for SMEs:**

- If the equalisation reserve is applied, the tax rate is 22,5%.
- 20 % tax rate if both the capitalisation and equalisation reserves are applied.

➤ **The reduced tax rate (15%) for new entrepreneurs remains.**

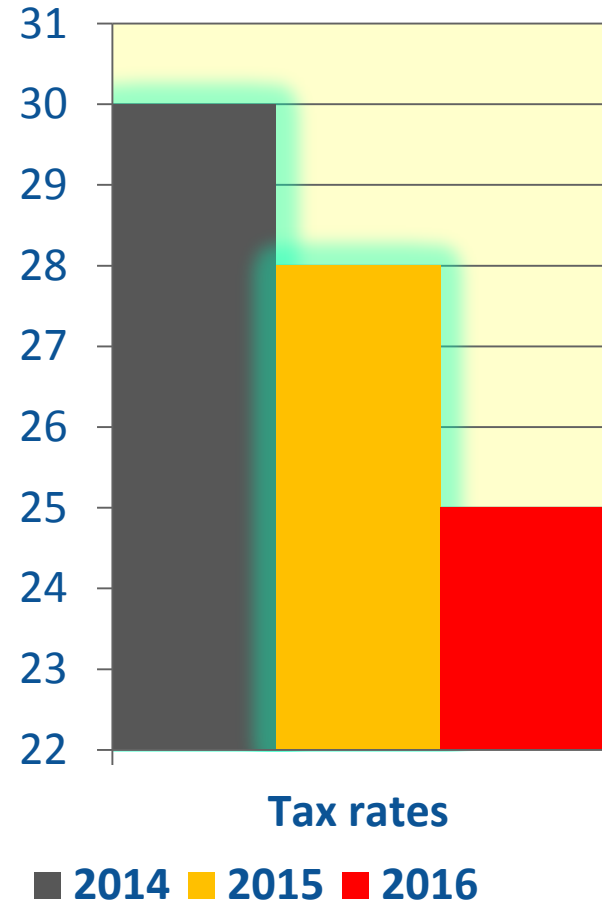


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COMPANIES: TAX RATES REDUCTION

- **General**: from **30%** to **25%**, in two years.
- **SMEs**: **25%**. If both reserves are applied: **20%**.
- **New entrepreneurs**: **15%**.





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COMPANIES: TAX LOSSES

- **Capitalization reserve:** taxable base reduction associated to equity increases.
- **Limit to offset tax losses:** 50%/25% depending on revenue in 2015; 60% in 2016 and 70% from 2017 onwards.
- **Deductibility of interests** on the operational profit of the tax group if:
 - ❑ The loan does not exceed 70% of the acquisition value of the participation.
 - ❑ Additionally, a 5% of the total debt needs to be written off along 8 years.
 - ❑ After 8 years the loan cannot exceed 30% of the participation.



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COMPANIES: R&D&I and Industry

- **Deduction** for specially intensive investment in R&D (more than 10% of turnover): the guaranteed return rate is stepped up from 3 to 5 million EUR a year.
- **Deduction for technological innovation:** videogames and animation included.
- Extension of partial **exemption** (85%) of the tax on **electricity** for productive processes demanding intensive use of electricity.



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COMPANIES: Cultural activities

- 20% deduction for **cinematographic** productions up to one million, 18% onwards, limited to 3 million. Single rate for financial producer and co-producer.
- **Tax rebate for foreign** cinematographic productions filming in Spain: 15% deduction on expenses incurred within the Spanish territory. Early repayment.
- New **deduction for investment** in performing arts and musical performances: 20% of direct costs up to EUR 500,000 taxpayer/year. Reinvestment of 50% of the profits in the same activities along 5 years.



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COMPANIES: adaptation to international tax treatment and fight against fraud

- Equal tax treatment of **resident and non resident** participations. Exemption of 100% dividends and capital gains from participations exceeding 5%.
- **Non availability of the deduction of tax expenses in the case of international differences in tax characterisation.** Returns from financial instruments cannot be deducted when the beneficiary abroad does not pay taxes on them (hybrids).
- **Rationality in rules applicable to related transactions.** Simplification of documentary obligations. Significant influence shall be deemed to exist with participation over 20%.



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EFFECTS OF THE TAX REFORM

- **In 2015**, as a consequence of the reduction in PIT withholdings **20 million taxpayers** will have **more disposable income** per month.
- This estimate is **compatible with the Stability Program**.
- The tax reduction as a whole will raise GDP in 0,55% in 2015-2016.