Press release

Parliamentary appearance to present 2012 Budget

Ferre: "The tax measures approved will help to fulfil tax consolidation target"

- The State Secretary for Finance highlights that this year's forecasts are "credible", since they are based on "prudent" revenue forecasts, and the reduction in deficit already has the recognition of the European Committee and the BCE (Central European Bank)

- The Government emphasises that public accounts aim for a balance between the necessary tax austerity measures and the return of economic growth, therefore it will not take decisions which worsen consumption

17 April 2012. The Secretary of State for Finance, Miguel Ferre, defended in the Spanish Parliament this afternoon the unprecedented tax adjustment, involving expenditure as well as revenue, included in the 2012 General State Budget Bill. Ferre once again pointed out that the deficit deviation of 2.51 points (from 6% to 8.51% of the GDP) of Administrations overall, which the previous Government incurred for 2011, has obliged the present Government to approve a series of additional tax consolidation measures.

Among said measures, he highlighted the first series of tax measures initially approved on 30 December, which mainly affected contributions by natural persons. Those included in the Royal Decree of 30 March have been added to these, which above all affect taxation of legal persons. Altogether, they will provide additional tax revenues of €12,300 million this year which will contribute towards alleviating the effects of the economic crisis on tax revenue and "will help to reduce the deficit to 5.3% of the GDP", the target committed to with Brussels.

"Without tax consolidation measures and as a consequence of the adverse economic situation, the base amount including the main taxes and, therefore, tax revenues, would suffer a decrease of almost 3%, with special attention being given to expenses subject to VAT and Corporate Tax", he stated in his speech to the Budget Committee of the Lower House of Parliament.

INCOME TAX RETURNS IN MARCH

The first positive effects of the tax consolidation plan are already being noted in terms of revenue. Indeed, Ferre emphasised that revenues from Income Tax partially recovered in March, thanks to the increase in deductions made through "additional, temporary and progressive" taxes approved in December. The Treasury predicts that revenue collection through Income Tax is to reach €73,106 million this year, up 4.7% on 2011.

However, he pointed out the weak consumption as a result of the economic recession. This weakness is what the Government has taken into account in order to reject measures that would have had an even more negatively on aggregate demand, such as an increase in Income Tax. The Secretary of State emphasised that the Government "has, above all, looked for a balance between the necessary tax austerity measures and the return of economic growth". Based on this, Ferre stated that the Budget is "credible and realistic", therefore it is based on revenue forecasts, which are "prudent and in line with the economic situation" and this consolidation effort is already being backed by the European Commission and the ECB.

COMPANIES AND REGULARISING INCOME

From those tax measures approved, he highlighted those relating to Corporation Tax and the additional plan for regularising concealed income. With regard to Corporation Tax, Spain has aimed to increase its effective tax rate without modifying formal tax, by introducing limits or cancelling specific tax benefits. Highlighting the limitation of the deduction of goodwill and financial expenses, the introduction of a minimum limit for staged payment of tax and the end to freedom of amortization for large companies. This will lead to a 17.8% increase in Corporation Tax this year as compared to 2011.

Regarding the extraordinary programme to regularise tax, Ferre stated that it was an incentive that aims to repatriate concealed income and assets abroad in order for them to become part of the general tax regime. This plan will allow income to surface on receipt of a 10% tax levied on the value of the undeclared assets and rights.

The Ministry of Finance is working on approving a standard tax return for those purposes for those who decide to participate in the aforementioned programme, the deadline for which is 30 November. Ferre again stated that it is not the first time that a special income regularisation scheme has been approved in Spain. In 1979, 1984 and 1991, it was carried out by the UCD and the PSOE governments. Moreover, this exceptional practice, follows the recommendations of the OECD.

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