Press release

URGENT MEASURES FOR ECONOMIC AND SOCIAL ORDER

- Expenditure has reduced by €8.900 billion and revenues have risen by €6.275 billion

27 January 2012. The Council of Ministers has approved a Royal Decree on urgent measures for economic and social order and the correction of the public deficit which reduces expenditure by approximately €8.900 billion and increases revenues by €6.275 billion.

These actions are in response to a recalculation of the expected deficit for all Public Administrations, which is around 8 percent according to recent reports provided by the National Audit Office.

The Government believes that these measures address the need to tackle Spain's primary problem, unemployment, which is hindered by the public deficit and can only be overcome by facilitating the funding of the economy. The Government is therefore reaffirming its commitment to meeting the targets of Spain's Stability Program.

This requires an effort from every part of society and does not just fall on the weakest. The government is therefore reassessing the purchasing power of pensions and is reducing public expenditure that does not impact on any welfare rights. It is also establishing a tax increase, especially for citizens with greater economic capacity, through a new temporary and extraordinary tax rate.

This collective effort will allow Spain to achieve its objectives, regain confidence and return to the path of economic growth and job creation.

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Fulfilling commitments

- The Government has approved the 1 percent increase in pensions starting 1 January 2012, to recover their purchasing power.
- The personal income tax relief on the purchase of primary residences will be revived, under the same conditions that existed until 31 December 2010. This measure will apply retroactively from January 2011.
- A super-reduced VAT of 4 percent is established for the purchase of first homes starting in 2012. This measure is intended to help the recovery of the housing market.

MEASURES TO REDUCE EXPENDITURE

- Maintaining the salaries of civil servants and freezing the rehiring rate for personnel, except for the national law enforcement and security forces and the anti-fraud corps of the Ministry of Finance and Public Administrations, and the Ministry of Employment and Social Security.
- Increasing the working hours of civil servants to 37.5 hours per week throughout the country. The 35-hour work week may be maintained with a proportional salary reduction.
- Maintaining the Minimum Wage at €641.40 (with fourteen payments) for 2012.
- Sending a Bill to Parliament to amend the Organic Law on financing political parties in order to reduce the subsidy to political parties by 20 percent. The same reduction shall apply to subsidies to social agents.
- Reducing the RTVE budget by €200 million.
- Reducing the RENFE budget by €200 million.
- Reducing R&D+i subsidies and loans by a total of €600 million.
- Reducing development assistance subsidies.
- Reducing participation loans to motorway concession holders by €400 million.

- Postponing the implementation of the Dependency Law for new beneficiaries until 1 January 2013, while maintaining current coverage to all current beneficiaries.
- Not renewing Emancipation Income while keeping existing coverage, which affects 300,000 youths.
- Eliminating infrastructure funding to compensate for the cessation of the coal mining activity.
- Postponing the extension of paternity leave from two to four weeks until 1 January 2013.

MEASURES TO INCREASE REVENUE

Maintaining the increase in instalment payments of Corporation Income Tax for large companies, which was approved last August.

INDIVIDUAL INCOME TAX

- A temporary and progressive supplementary levy is created to reduce the public deficit.
- The levy will apply to the years 2012 and 2013 to all tax brackets on the general taxable income to which the state rate is currently applicable. The applicable percentages range from 0.75 percent for the lowest income bracket, up to 7 percent for incomes above €300,000, a new bracket established for this levy.
- The supplementary levy is also established for savings income in percentages ranging from 2 percent for returns of up €6,000 to 6 percent for returns exceeding €24,000.

- The planned levy rates are as follows:

General taxable base (in euros)	Applicable rate (percentage)
0	0.75
17,707.20	2
33,007.20	3
53,407.20	4
120,000.20	5
175,000.20	6
300,000.20	7
Taxable savings base (up to, in euros)	**Applicable rate (percentage)**
0	2
6,000.00	4
24,000.00	6

The Royal Decree Law adjusts withholding for both earned income and capital income at the new levy rate.

Examples

For a person who is **single without children**:

- If his income is €16,000 a year, he will pay €53.86 more a year.

- If his income is €30,000, the annual increase is €248.88.

- If his gross salary is €400,000, he will pay an annual increase of €20,567.95.

For a **family with two children filing jointly**:

- If their income is €16,000, the increase is €0.

- If their income is €30,000, the annual increase is €151.81.

- If their income is €400,000, the annual increase is €20,300.87.

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The impact of this income tax measure on tax collection in 2012 is estimated to be approximately €5.357 billion. All Administrations will benefit from this tax collection increase, since more than 50 percent is earmarked for the Autonomous Regions and Local Authorities through the funding model.

The part corresponding to the general tax base is around €4.111 billion.

The part corresponding to the savings base is approximately €1.246 billion.

MUNICIPAL PROPERTY TAX

To ensure that Local Authorities do not endanger the budgetary stability target, a temporary and exceptional application of an increased municipal property tax on urban real estate is established for the years 2012 and 2013. It is estimated that the reform will generate an increase in tax collection for Local authorities of €918 million.

This increase has been established in a progressive manner (10 percent, 6 percent, 4 percent) based on the age of the land registry review, and therefore its consistency with the market value: the older the rateable value, the greater the increase. Furthermore, to avoid penalising lower incomes, 50 percent of the lower-value homes in each municipality have been excluded from the increase, provided that their rateable values have been updated since 2001. Also exempt from this increase are houses whose rateable value was revised in the years when property values were at their highest (2005-2007). The following municipalities have the 4 percent rate: Madrid, Málaga, Oviedo, Segovia, Zamora, Burgos, Gijón, Soria, Mérida, Alcalá de Henares, Alcorcón, Fuenlabrada and Móstoles, among others.

Examples

- A house with a market value of €150,000 whose assessed value was revised before 2002 was paying an average of €150. After the measure, it would pay €165, so the final increase would be €15. If the rateable value of this same house had been revised after 2002, the approved reform would not lead to an increased tax amount.

- A house with a market value of €300,000 whose assesses value was revised before 2002 was paying an average of €300. After the measure, it would pay €330, so the final increase would be €30. If the rateable value of this same house had been revised between 2002 and 2005, the approved reform would lead to an increased tax amount of between €15 and €25.