General State Budgets 2012

The Government approved the most demanding Budgets to ensure compliance with the deficit at a time of recession

- The extensive adjustment to the accounts for 2012 will achieve the deficit target set for all Public Administrations of 5.3%

- The State will make the greatest effort ever by the democracy, with an adjustment of 27,300 million euros, including cost controls and revenue growth

- The allocations to the Ministries are reduced by an average of 16.9% to 65,803 million euros.

- Spending on pensions will be increased and salaries in the public sector and unemployment benefits are to be kept at their present amount.

- The Government has approved exceptional tax measures to increase revenues

30 March 2012. The Cabinet today approved the Draft Law on the General State Budget for 2012, accounts which made a major effort to control spending in order to reduce the deficit and achieve the goal of fiscal stability.

However, despite the undertaking this effort to meet the deficit, priority allocations have not been neglected such as spending on pensions, maintaining the salaries of civil servants, as well as unemployment benefits.
Along with a set of austerity measures, the Budget for 2012 includes making extraordinary decisions for revenue growth, which does nothing else but confirm the serious and firm commitment of Spain to an extreme situation that is hoped it

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will overcome in order to return to the path of economic recovery and regain the confidence lost.

The commitment is to cut the deficit of all the Public Administrations to 5.3% of GDP, 3.2 points less than the 8.5% at which it closed 2011. The State will require a reduction of 1.6 points to achieve a deficit of 3.5%, 1.4 points by the Autonomous Regions to achieve a deficit of 1.5% while the Local Authorities will require a reduction of 0.1 points to achieve a deficit of 0.3% this year. Meanwhile Social Security will move from a deficit of 0.1% of GDP to a balanced budget.

In budgetary terms, the fiscal consolidation effort to be made by the State is the largest ever by the democracy, equivalent to 2.5% of GDP (27,300 million). Of these, 0.8 points of GDP correspond to increases in revenue and 1.7 points, to cost adjustments, excluding the allocations involved.

MINISTERIAL ADJUSTMENT

The State Budget this year includes a reduction of the overall spending of the Ministries of 16.9%, excluding prior period obligations, reaching a total of 65,803 million euros. The Ministry of Foreign Affairs and Cooperation has reduced spending by 54.4%, Industry, Energy and Tourism has seen spending fall by 31.9%, while the Finance and Public Administration by 22.9%. The Ministry of Education, Culture and Sport will have 21.2% less resources and the Ministry of Development 34.6%.

Real investments will fall by 19.6% to a total of 4,679 million euros.
Transfers to the Spanish Agency for International Development will be reduced by 594 million euros. The State's contribution to Official Development Assistance fell by 47.6% down to 2005 levels. The Water Fund will fall to 795 million. Investment in defence will be adjusted to 351 million euros, primarily in Defence Special Programmes. Aid for access to housing will be reduced by 322 million euros. As for the allocations to infrastructure, 360 million will be set aside for first generation motorways, while contributions to ADIF and SEITTSA will fall at 287 and 427 million.

Another allocation that will experience adjustments will be the transfers to the unions that will be reduced by 6.2 million euros, while the 67 million allocation to the Fund for the Integration of Immigrants will be eliminated. Active Employment Policies will be reduced by 1,557 million euros. The reduction in transfers to Education excluding grants totalled 530 million euros.

REVENUES

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Non-financial revenues for 2012 after the transfers to the Territorial Governments will reach 119,233 million euros, representing growth of 12.5%. To achieve this evolution of revenues the new tax measures by the Government will be crucial, as they will provide an increase of 12,300 million euros, including the increase in personal income tax approved last 30 December.

The income tax revenues before the transfer to the Territorial Governments will reach 168,726 million euros, up 2.3% on the 2011 Budget. The personal income tax collection will grow by 1.9% to 73,106 million euros, while that generated by Corporation Tax will increase from 22.2% to 19,564 million euros. VAT revenue will be reduced by 2.6% as a result of the slow pace of the Spanish economy, reaching 47,691 million euros, while Excise Revenue will fall by 11.5% to 18,426 million euros.

FISCAL MEASURES

In order prevent a continuing fall in the effective rate of Corporation Tax, mainly that of large companies, and in order to help fulfil the commitment to deficit reduction, the Government today approved a royal decree with various tax measures, especially in the business sector, which will also be reflected in the General State Budget for 2012:

-Deferred fiscal benefits. The annual limit for deductible intangible assets related to goodwill will be reduced from 5% to 1%, both by the acquisition of entities and corporate restructuring. This will set the same limitation as determined by the decree of 2011 for financial goodwill and extend it to other business assets with tax effect. They shall have effect for 2012 and 2013.

-The accelerated depreciation for large businesses will be eliminated , as regulated in the 11th additional provision of the Law on Corporation Tax. This allows the accelerated depreciation, even if not maintaining or leading to the creation of jobs, according to the decree which came into force in January 2011. Additionally, the deduction for accelerated depreciation related to investments made prior to the repeal of the regime will be limited. With this limitation, the aim is to defer the tax incentive.

For SMEs accelerated depreciation will remain provided it is linked to job creation.

-Financial spending. Today deductions can be made without limitation, an aspect that contrasts with other national laws, which have been protecting their tax bases in recent years. With the new standard, the financial costs will not be deductible in the year that they exceed 30% of the result (EBITDA) for the financial year. In any event one million euros will be deductible. The expenses were not deductible in the year will be in future periods up to a maximum of 18 years. Financial spending arising from the purchase of shares of entities within a group will not be deductible, unless the entity justifies the purchase of these shares on economic grounds. The measure is of an indefinite nature.

-Minimum payment by instalments for large corporations. This sets a minimum instalment payment for companies whose accounting profit exceeds 20 million a year, as a new tax liability. This will be 8% of the result of the profit and loss account. It will be 4% if at least 85% of its revenue comes from exempt income or dividends eligible for double tax deduction. In the next instalment payment, to be made before 20 April of this year, a rate of 4% on accounting profit will be applied. The measure only affects 2012 and 2013.

-Deductions limit. The current general limit will be reduced from 35% to 25%, including the deduction for reinvestment of extraordinary profits. It will be reduced from 60% to 50% for cases where the deduction for R&D exceeds 10% of the quota. The reductions are temporary, affecting only 2012 and 2013.

--Partial exemption on the sale of shares.In order to support the internationalisation of Spanish companies, the regime for exemption on the sale of shares in non-resident entities will become more flexible, establishing a proportionate criteria depending on the time in which the requirements are met.

EXCEPTIONAL MEASURES

The Government also introduced, via royal decree, a series of exceptional measures to support the attraction of income and also contribute to fiscal consolidation.

As such, a special tax of 8% was set for dividends or a share of profits from foreign sources, derived from the same source that are repatriated until 31 December 2012. With this tax the entities that could not benefit from the exemption envisaged for dividends and income from foreign sources as a result of being any of the companies in a country with low taxation, will be encouraged to repatriate funds at a low cost. This must always be companies that are within the mercantile group and clearly identified in the accounts of the company.

Another special tax is implanted for the attraction of undeclared income by taxpayers of income tax, Corporation Tax and Non-Resident Income Tax. The Tax Agency will toughen the tax penalty regime in 2013, but earlier will allow extraordinary regularisation of capital, previous payment of an additional tax of 10% of the amount of the assets and rights arising. Taxpayers may submit a confidential statement to regularise their tax status. The deadline for presentation and admission ends on 30 November.

OTHER MEASURES

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The Tax on Tobacco Products will be reduced by two points for the proportional type, depending on the sales price, and in turn increases the specific type linked to the number of units.

On the other hand, and on the subject of wealth management, the decree includes all public companies in the savings plan, rationality and management of administrative buildings. Reinforcing therefore the criteria of efficiency in the management of such buildings not only in intensity but also in their extension. Moreover, its structure will be simplified by eliminating duplicate bodies as was the Coordinating Board of Administrative Buildings. These changes are to be added to the restructuring of the public enterprise and foundation sector already announced, including salaries in the public sector.

All these new measures are designed to correct distortions in the fiscal progressivity of corporation tax while achieving higher incomes in other taxes and as such contribute to the fiscal consolidation commitments to the European Union.