CHART 1. PERSONAL INCOME TAX (IRPF) BEFORE TRANSFERS

Range P20-80   Range P30-70   Range P40-60
○ Official forecast   Observed

Probability of lower Personal Income tax than official target
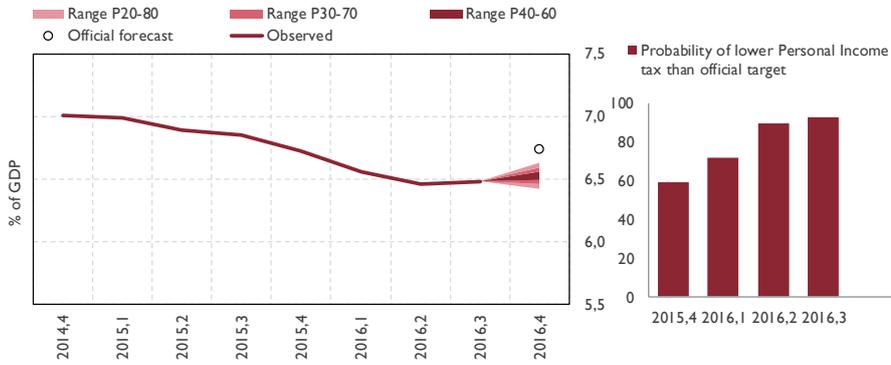
- Despite the growth in income from salaries and pensions, IRPF has fallen from Q4 2014 to Q2 2015 by more than half a percentage point of GDP, as a result of the fiscal reform.
- In Q3 2016, a slight alteration was observed in the trend deriving from the depletion of the effects of the reform. The reform was brought forward in Q3 2015, having deployed its full effects.
- This slight improvement is expected to continue in Q4 2014. The fiscal reform is, nevertheless, stronger than initially foreseen. Therefore, it is unlikely that the General State Budget targets for 2016 will be met.
- The October implementation data corroborate this forecast.

CHART 2. CORPORATE TAX (IS)

Range P20-80   Range P30-70   Range P40-60
○ Official forecast   Observed

Probability of lower Corporate tax than official target
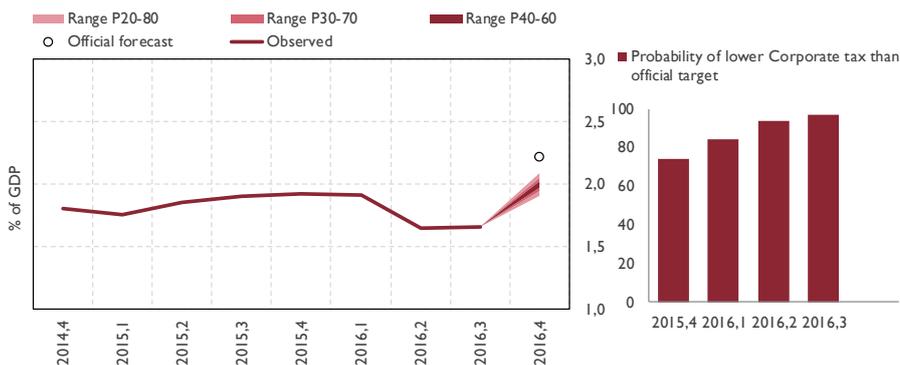
- Corporate Tax has decreased by 0.3 tenths of a percentage point of GDP from Q4 2015 to Q3 2016, resulting from a drop in the first instalment in April.
- This trend will be reversed in the fourth quarter, as shown in the data for October, which include the impact deriving from the fractioned payment regime, amounting to 0.7 tenths of a percentage point of GDP.
- Despite these measures, compliance with the forecasts in the 2016 General State Budget is very unlikely as they envisage growth for this tax to exceed 20%.

Sources: AEAT and estimates by AIReF

(*) Assumptions and notes relating to quarterly monitoring

- AIReF's projections are based on its own tax models, the budget implementation data published for the first, second and third quarters, and the data for October.

- The charts for Personal Income Tax and Corporate Income Tax show moving cumulative figures of the last four quarters as a percentage of GDP.

- AIReF's projections are compared against the fiscal targets envisaged in the 2016 General State Budget.

- AIReF's updated forecast and the official balance path are allocated to quarters with the same weighting as assigned by the Tramo Seats ARIMA projection to each quarter, for each of these components, including both the effects of seasonality and the series trend. The quarterly profile for the balance is obtained from the difference between revenue and expenditure.

- Confidence intervals are obtained in two steps. Firstly, a VAR model is estimated using the following variables: (i) taxes and the Government debt to GDP ratio; and (ii) common variables referring to the national aggregate: Real GDP, the GDP deflator and yields on Government 10-year bonds. Secondly, from the projected paths for the different variables and the estimated joint distribution of the VAR shocks, 1500 probabilistic scenarios are built. The intervals displayed on the charts refer to the percentiles 20-80, 30-70 and 40-60. The probabilistic intervals cannot be compared with the official path in this publication, as there is no distribution by subsectors.