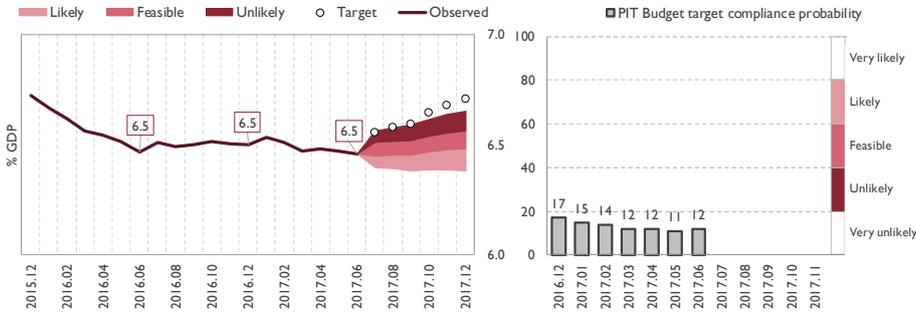# Monthly Monitoring of Stability Target

## C. Tax on Cash Before Transfer                    June 2017

---

**GRAPH 1.** PERSONAL INCOME TAX (IRPF) BEFORE TRANSFER



- Personal Income Tax grew 3.7% in accumulated 12-month terms through June, driven by improved withtholdings, the improvement in employment and the end of the 2015 and 2016 tax reform effects.
- However, this growth is slightly below the growth of nominal GDP, with the tax still around 6.5%%.
- It is expected to close the year at a level similar to nominal GDP, maintaining its weight in GDP.
- The expected growth is far from that contemplated in the GIP, therefore the AIReF still considers it highly unlikely it will meet its target.

---

**GRAPH 2.** CORPORATE TAX
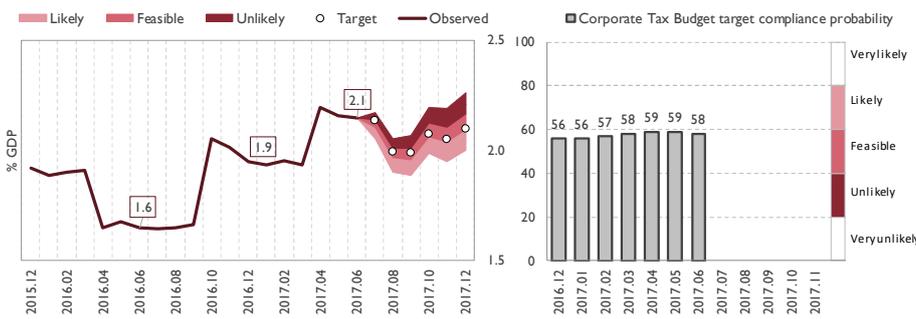


- Through June, Corporate Tax increased in accumulated 12-month terms, more than 30% with a period where two installments (October 2016 and April 2017) were much higher than usual.
- The tax stood at 2.1% of GDP in June, increasing 5 tenths compared to the previous year, and 2 tenths since December. This growth will be qualified when quotas are returned. However, the October and December payments are expected to have similar weight at the end of the year, at 2.1% of GDP.
- Reaching the Budget target is still feasible, although there are uncertainties associated with the final impact of the measures adopted in RDL 3/2016, since their greatest impact will occur in the July quota.

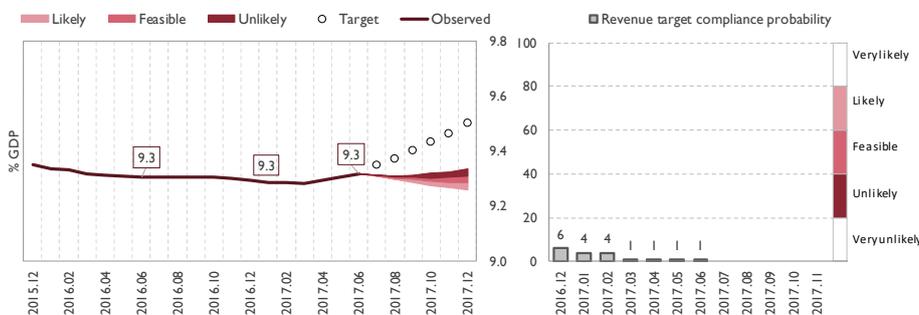## GRAPH 3. VALUE ADDED TAX (VAT) BEFORE TRANSFER
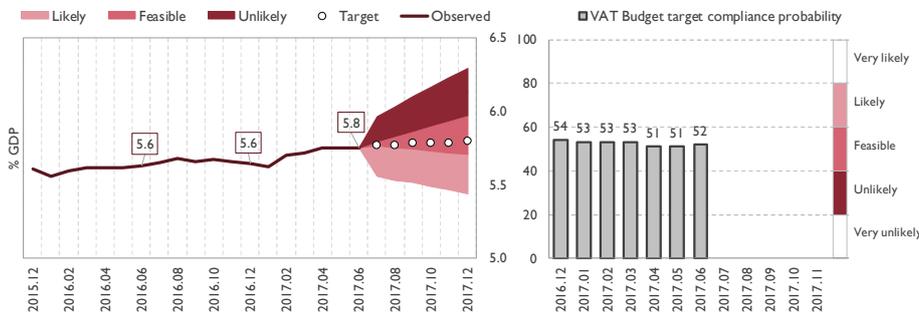


- VAT collection is accelerating, approaching the 7% growth rate projected in the GIP.
- For the rest of the year, this trend is expected to be consolidated, driven by the expected real and nominal growth of private consumption, construction and employment. The tax is expected to close around 5.8% of GDP, two tenths above December 2016.
- The GIP target continues to be feasible. However, there is uncertainty about the impact of the VAT tax deferrals measure. The AIReF already corrected its forecast to 800M in May, taking into account the remaining revenue in the last quarter of the year for deferrals that have not been granted at the beginning of the year.

## GRAPH 4. SPECIAL TAXES BEFORE TRANSFER
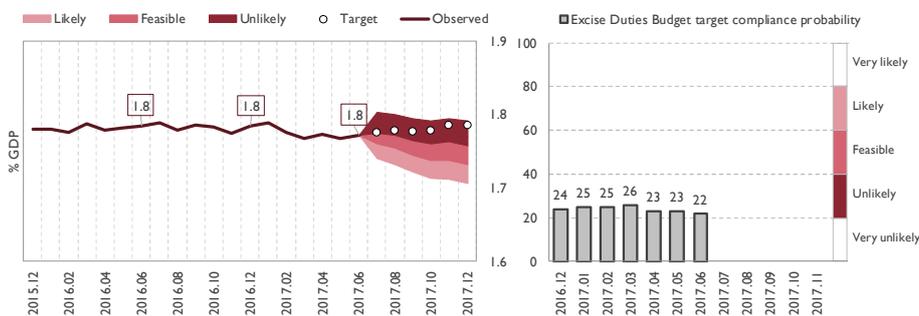


- Special taxes grew 3% in accumulated 12-month terms, improving over last month. During the rest of the year, this growth is expected to continue, albeit at a slightly lower pace since, although the hydrocarbon tax is increasing at very high rates, other taxes are not growing significantly.
- The AIReF believes it is unlikely that the Budget projections will be met, which estimates 4.6%.

## GRAPH 5. SOCIAL SECURITY CONTRIBUTIONS



- Social Security contributions remained at around 9.3% of GDP in 2016. The evolution of the first six months confirm this pattern, which AIReF forecasts expect to continue through 2017.
- In cumulative 12-month terms, the contributions grew by 4% until June, similar to nominal GDP growth.
- The AIReF believes it is highly unlikely that the Budget projections will be met, which grew by 6.8%, well above the expected GDP growth.

Sources: AEAT, General Social Security Agency and AIReF estimates

## Assumptions and Notes on Monthly Monitoring

- The AIReF projections are based on its own models for taxes and contributions and tax data available up to June 2017.

- The graphs represent the Personal Income Tax, Corporate Income Tax, VAT, Special Taxes and Contributions from the last four months accumulated as a percentage of GDP.

- AIReF projections are compared with the 2017 GIP projection targets.

- The updated AIReF forecast and the Government forecast are adjusted monthly, applying the same weights as assigned by the ARIMA Tramo Seats projection to each month for each of these components, considering both seasonality and series trends.

- Confidence intervals are obtained in two stages. First, a VAR model is estimated for the following variables: (i) subsector specific variables, such as expenditure, revenue and the ratio of public debt to GDP; and (ii) common variables referring to the national aggregate: real GDP, GDP deflator and ten-year government bond yields. Second, using projected trajectories for the different variables and the estimated joint distribution of VAR shocks, 1500 probabilistic scenarios are constructed. The intervals shown have been used to assess the achievement of targets according to the following probabilities:

| | |
|---|---|
| Muy probable | 80-99%: compliance highly likely |
| Probable | 60-79%: compliance likely. |
| Factible | 40-59%: compliance feasible. |
| Improbable | 20-39%: compliance unlikely. |
| Muy improbable | 0-19%: compliance highly unlikely. |