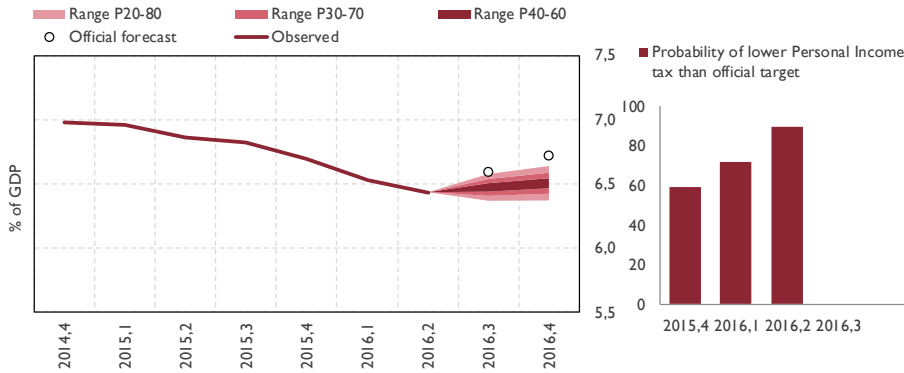# Quarterly monitoring of the stability target

D. Cash direct taxes before transfers — *2016/Q2* [*]


CHART 1. PERSONAL INCOME TAX (IRPF) BEFORE TRANSFERS

- Personal Income Tax before transfers shows a downward trend, declining by half a percentage point from 14/Q4 to 16/Q4, mainly owing to the fiscal reform effects.
- Macroeconomic variables performed according to expectations in 2016. However, latest cash data pinpoint that the effects of the fiscal reform are stronger than originally envisaged. This decreased the likelihood of compliance with the 2016 General State Budget target.
- The materialization of the 2016 General State Budget forecasts is highly unlikely, even after the mild improvement foreseen for Q3 and Q4, which is affected by the reduction in tax rates implemented in the second half of 2015.

CHART 2. CORPORATE TAX
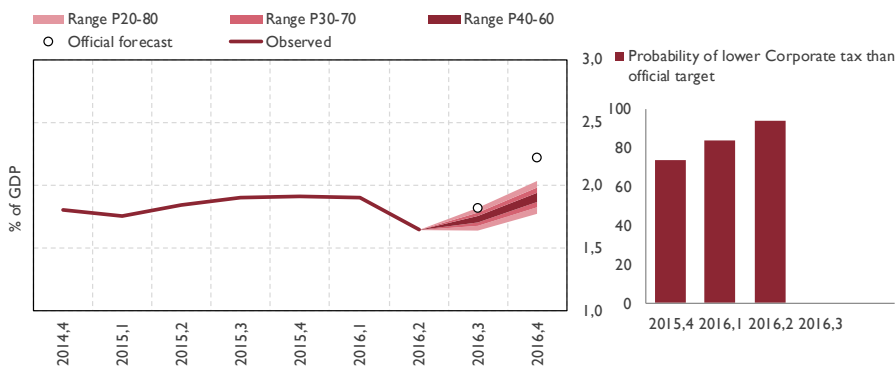
Sources: AEAT and estimates by AIReF

- Corporate Income tax collection shows a decrease in 2016/Q2, caused by a drop in the first installment in April.
- Based on the data available up to August, Q3 is expected to show a more stable evolution, given that the installment for July is similar last year.
- An improvement is expected in Q4, when the changes to the regulation on payments by installments for Corporate Income Tax will come into force.
- Despite these normative measures, data up to August (which includes installments) implies a greater likelihood of non-compliance with the forecast contained in the 2016 General State Budget.

(*) Assumptions and notes related to quarterly monitoring

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

- The charts of Personal Income Tax and Corporate Income Tax show moving cumulative figures of the last four quarters as 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 stationarity and the series trend. The quarterly profile of the balance is obtained from the difference between resources and uses.

- Confidence intervals are obtained in two stages. Firstly, a VAR model is estimated for 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.