



Autoridad Independiente
de Responsabilidad Fiscal

Spending Review 2019/2020

Tax Benefits

July 2020

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Some of the information in this presentation is only available in Spanish. Please contact AIREF for any clarification

1

Introduction and objectives

Tax Benefits

Tax Benefits are policy instruments that pursue economic and social objectives through exemptions, reduced rates, reductions or deductions in their tax quotas that generate incentives or improvements in the income of natural and legal persons that, in general, entail a lower tax collection.

- **In Spain, a significant part of the expenditure policies are implemented through Tax Benefits** (housing, pensions, employment, health, education...) and their analysis and reforms must be carried out in the context of the expenditure policy to which they belong.
- **Fiscal cost of 60 billion euros (5% of DGP).** Two thirds correspond to VAT. 
- **In the last decade, they have decreased by 1.2 % of DGP** (abolition of reductions and deductions for PIT) 
- **Making an international comparison is very technically complex** due to the different ways of quantity benefits around. A country may not have any tax benefit around a policy but may instead make a direct transfer of resources

The aim of this report is to evaluate whether each tax benefit meets the objective for which it was created and whether they generate any distortions that makes their reformulation advisable

	Tax Benefit	Policy Expenditure	Objective
PIT	Reduction for joint taxation (marriage modality)	231G	Adapt the tax to the composition of household income
	Reduction for contributions to social welfare systems	21	Long term savings
	Reduction for earnings from work	241A	Low-income labour supply
	Reduction for housing rental	261N	Supply of rental housing
	Deduction for donations	231F	Third sector financing
	Social deductions (maternity, disability, large family)	23	Birth rate, inclusion of people with disabilities and reduction of gender gap
VAT and ED	Reduced rates: 4% and 10%	41, 43, 44, 45, 26, 23, 33, 31	Access to essential goods/services of strategic interest
	Exemption: health and education	23	Access to education and health, and decongesting the public system
	Exemption of financial services	--	Cost of financing households and companies, and EU harmonisation
	Reduced rates for hydrocarbons	--	Environmental effects
	Reduced rates: SICAV and SOCIMI	26	Strategic and real estate investment
IS	Donations	231F	Third sector financing
	R&D+i incentives	467C	Companies' research and innovative activity

The study does not discuss the adequacy of the economic policy objectives that each tax benefit pursues

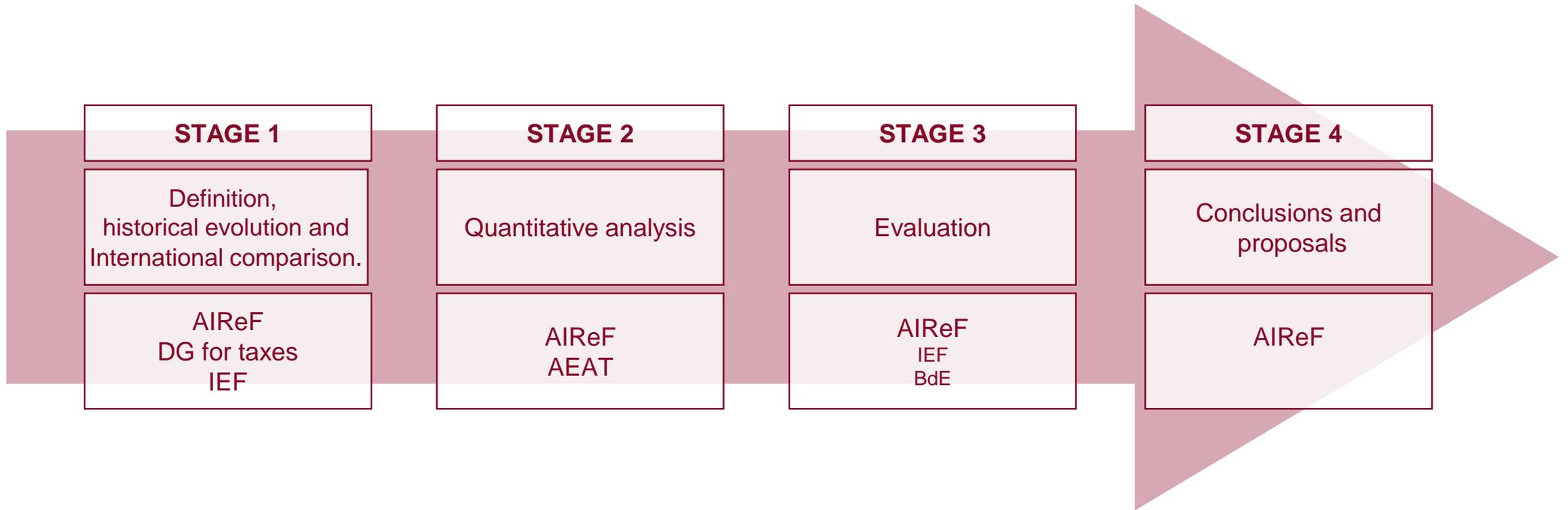
13 Tax Benefits were analysed in this study, totalling a collection cost of 35 billion euros (60% of the total)

PIT (8.391 M€, 61% Total)	VAT and ST (25.183 M€, 58% Total. Referred to households only)	Corporate Income Tax (674 M€, 20% Total)
Reduction for joint taxation (2.392 M€)	Reduced rates: 4% and 10% (17.787 M€)	Reduced rates: SICAV and SOCIMI (323 M€)
Reduction for contributions to social welfare systems (1.643 M€)	Education and health exemption (3.457 M€)	Deduction for donations (107 M€)
Reduction for earnings from work (1.139 M€)	Exemption of financial services (2.777 M€)	Deduction for investment in R+D+i*
Reduction for housing rental (1.039M€)	Reduced rates for hydrocarbons (1.162 M€)	
Deduction for donations (469 M€)		
Social deductions (maternity, disability, large family) (1.708 M€)		

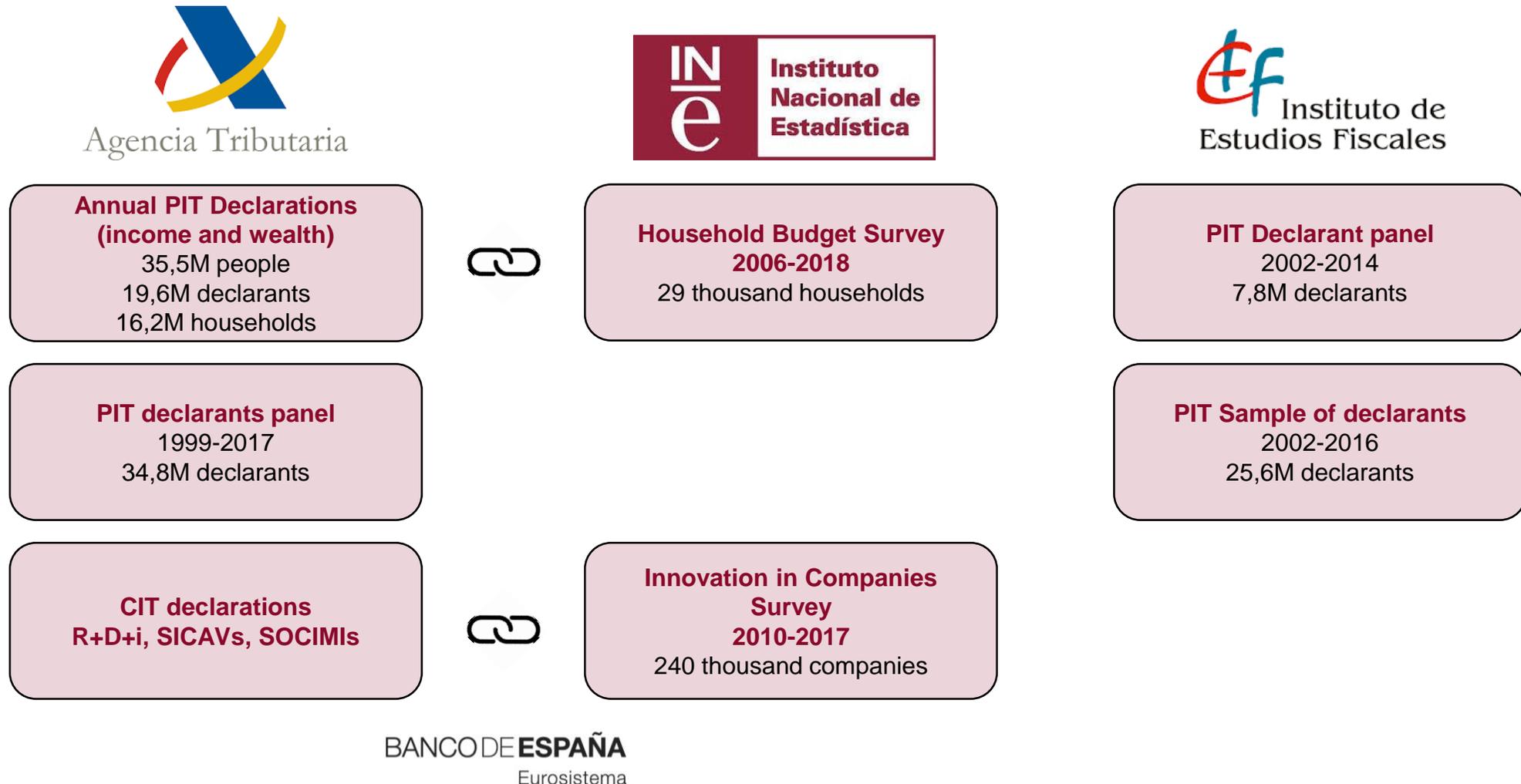
*The evaluation of this tax benefit has been interrupted by the State of Alarm.

2 Methodology and information sources

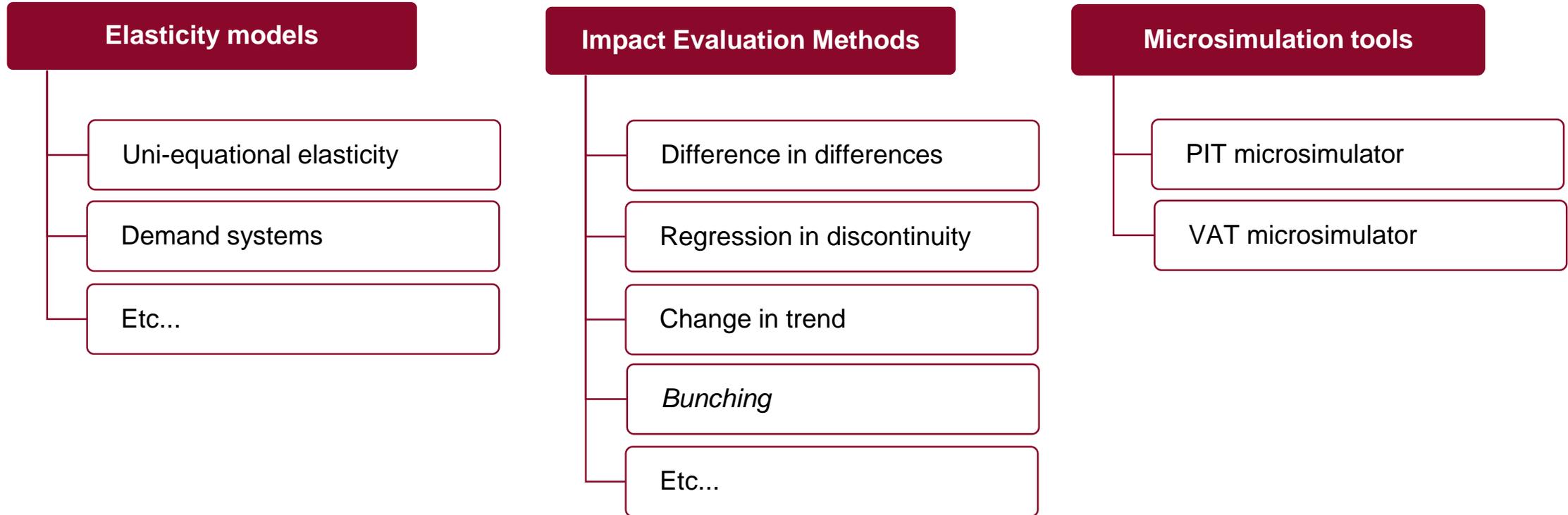
Work methodology



Results supported by microdata: millions of anonymised administrative data, mergers with surveys and participation of institutions



Quantitative microeconomic methodologies for evaluating public policies adapted to each tax benefit are used



Previous results found in academic literature are also used

3

Conclusions and Proposals

General conclusions and proposals

COMPREHENSIVE PUBLIC EXPENDITURE PLANNING	<p>The creation or any modification of tax benefits should take place within the strategic planning of the public policies to which they are related, so that the effectiveness of the different instruments as a whole can be assessed and the efficiency of different alternatives to achieve the proposed objective can be compared.</p>
ADMINISTRATIVE COORDINATION	<p>Coordination between different levels of the administration and, in particular, in relation to those tax benefits and other state and regional economic policy instruments that pursue similar objectives, should be improved in order to most effectively and efficiently meet the general needs of the population as a whole and the particular needs of each territory.</p>
EVALUATION	<p>The formulation and reforms of tax benefits, like all other public policies, must be accompanied by an ante evaluation that allows the potential effects of the measures to be approximated before their adoption and ex-post evaluations that measure the degree of fulfilment of the objectives pursued and, whenever possible, the efficiency with which they are achieved.</p>

Specific conclusions and proposals

WITH SPECIFIC PROPOSALS	DO NOT COMPLY WITH THE OBJECTIVE	Reduction for contributions to social welfare systems
	COMPLY WITH THE OBJECTIVE	Reduction for joint taxation Reduction for earnings from work Reduction for housing rental Reduced rates: 4% and 10%
	INCONCLUSIVE RESULTS	Reduced rates: SICAV and SOCIMI
NO SPECIFIC PROPOSALS	COMPLY WITH THE OBJECTIVE	Social deductions Exemption of financial services
	INCONCLUSIVE RESULTS	Deduction for donations in PIT Education and health exemption Deduction for donations in CIT

Specific conclusions and proposals

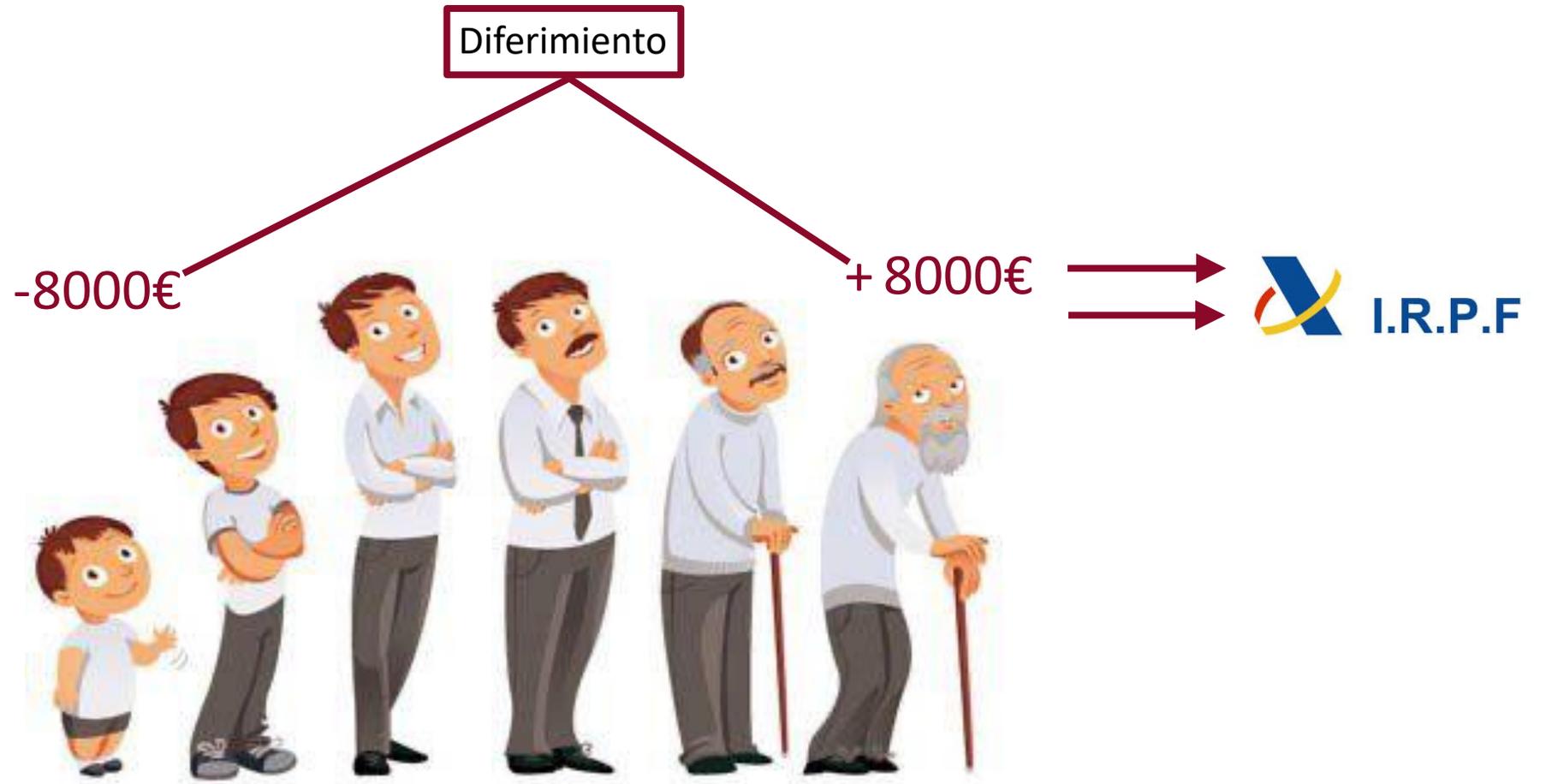
WITH SPECIFIC PROPOSALS	DO NOT COMPLY WITH THE OBJECTIVE	Reduction for contributions to social welfare systems
	COMPLY WITH THE OBJECTIVE	Reduction for joint taxation
		Reduction for earnings from work
COMPLY WITH THE OBJECTIVE	Reduction for housing rental	
	Reduced rates: 4% and 10%	
INCONCLUSIVE RESULTS	Reduced rates: SICAV and SOCIMI	
NO SPECIFIC PROPOSALS	COMPLY WITH THE OBJECTIVE	Social deductions
	INCONCLUSIVE RESULTS	Exemption of financial services
		Deduction for donations in PIT
		Education and health exemption
		Deduction for donations in CIT

Reduction for contributions to social welfare systems

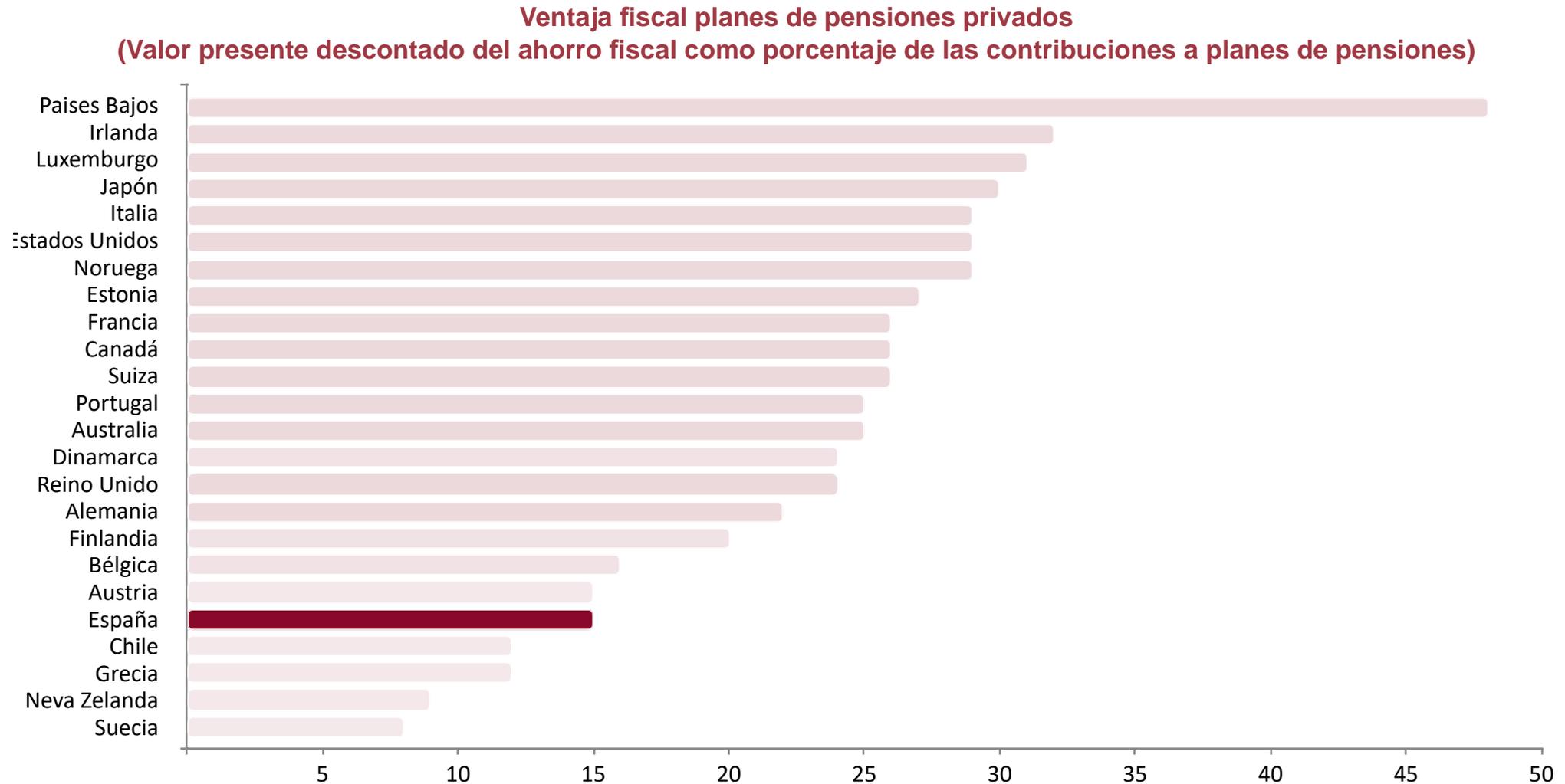
Reduction for contributions to social welfare systems

	DEFINITION	Up to € 8,000 for contributions to pension plans (tax deferral)
	COST (million €)	1,643 (tax deferral: 450)
	INEQUALITY	Regressive
EVALUATION	OBJECTIVE	Encourage long-term savings as a complement to the public pension system
	COMPLIANCE WITH OBJECTIVE	NO. The evaluation shows that the tax incentive may be negative for a wide range of savers once the taxation of retirement benefits, pension plan fees and the inter-temporal preference rate are taken into account
	PROPOSALS	Complete reformulation of the tax benefit in a manner consistent with the recommendations agreed in the Toledo Pact on long-term complementary savings

The tax benefit seeks to promote long-term savings by means of the possibility of deferring the payment of taxes by up to € 8,000 for contributions to private pension plans



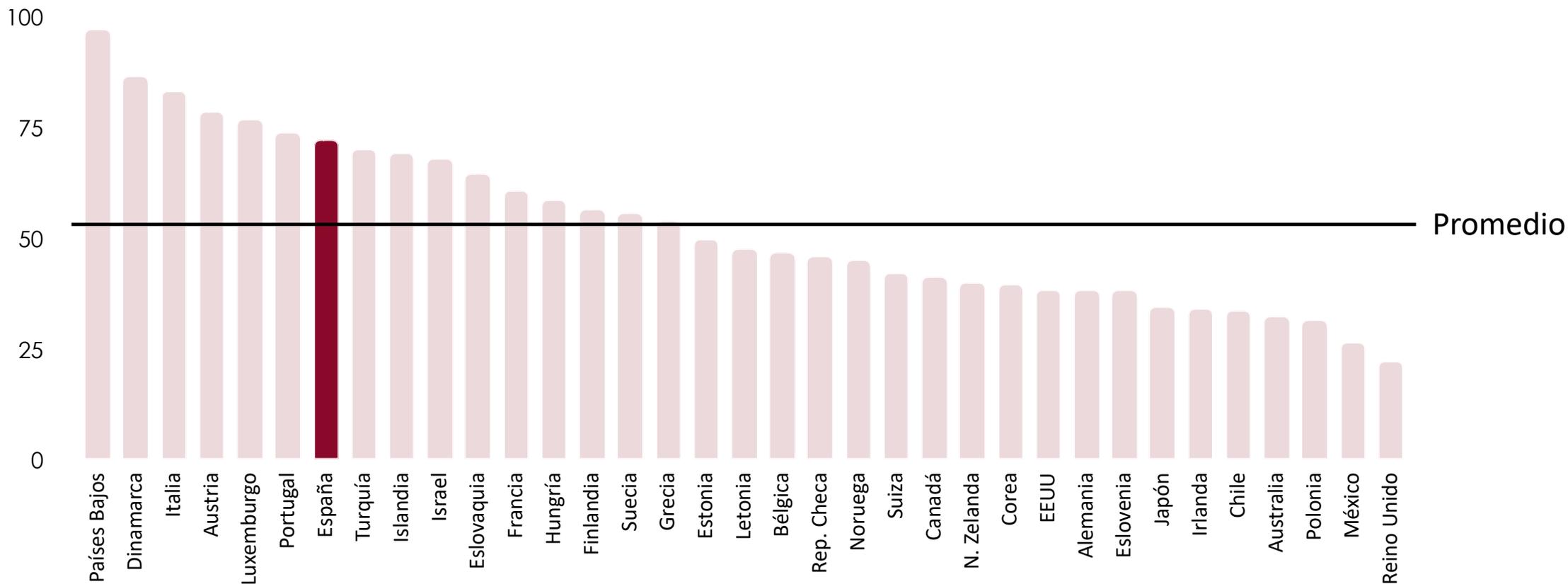
This type of incentive exists in most nearby countries



Source: "Project on financial incentives and retirement savings", OCDE (2018)

In Spain it coexists with a public pension system that, on average, guarantees 75% of the last income earned before retirement

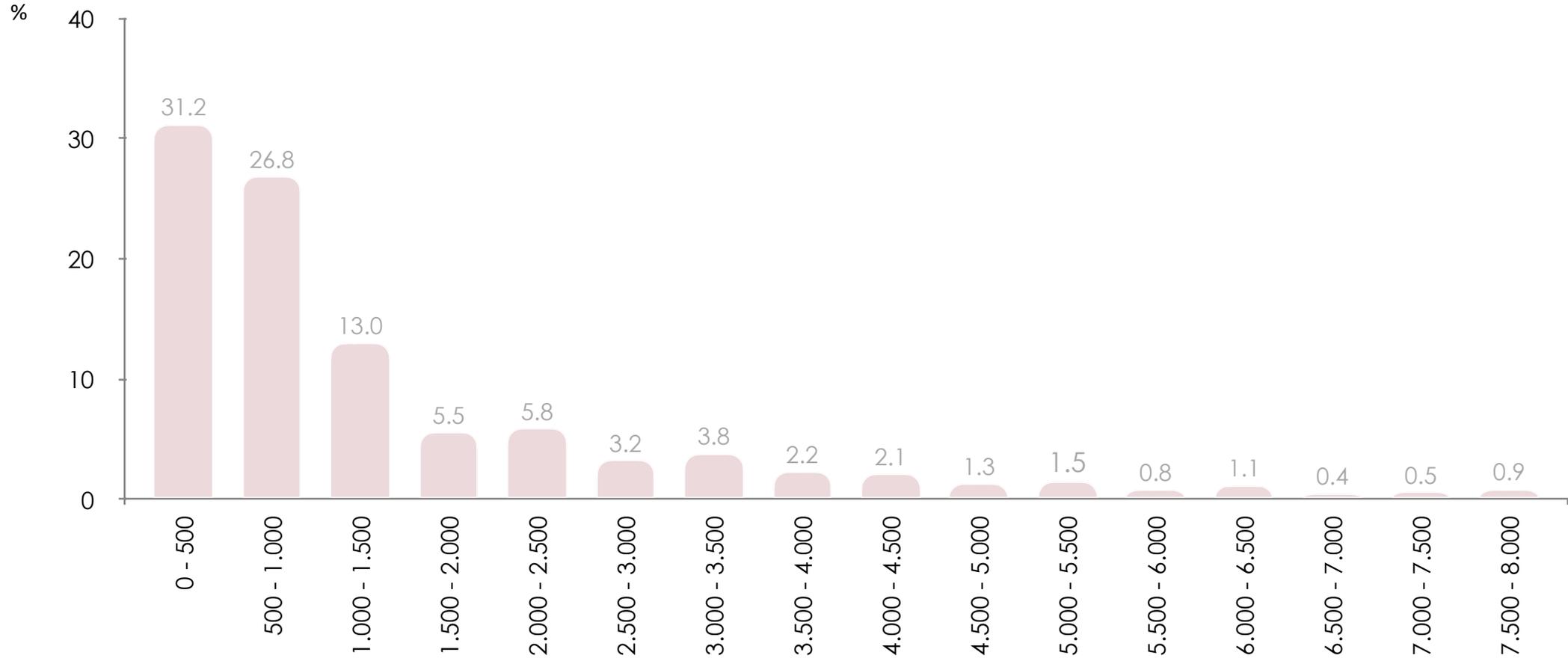
Tasa de reemplazo bruta de sistemas públicos y privados obligatorios y voluntarios



Source: "Pensions at a Glance 2017" OCDE

The contributions made to pension plans are of a reduced amount...

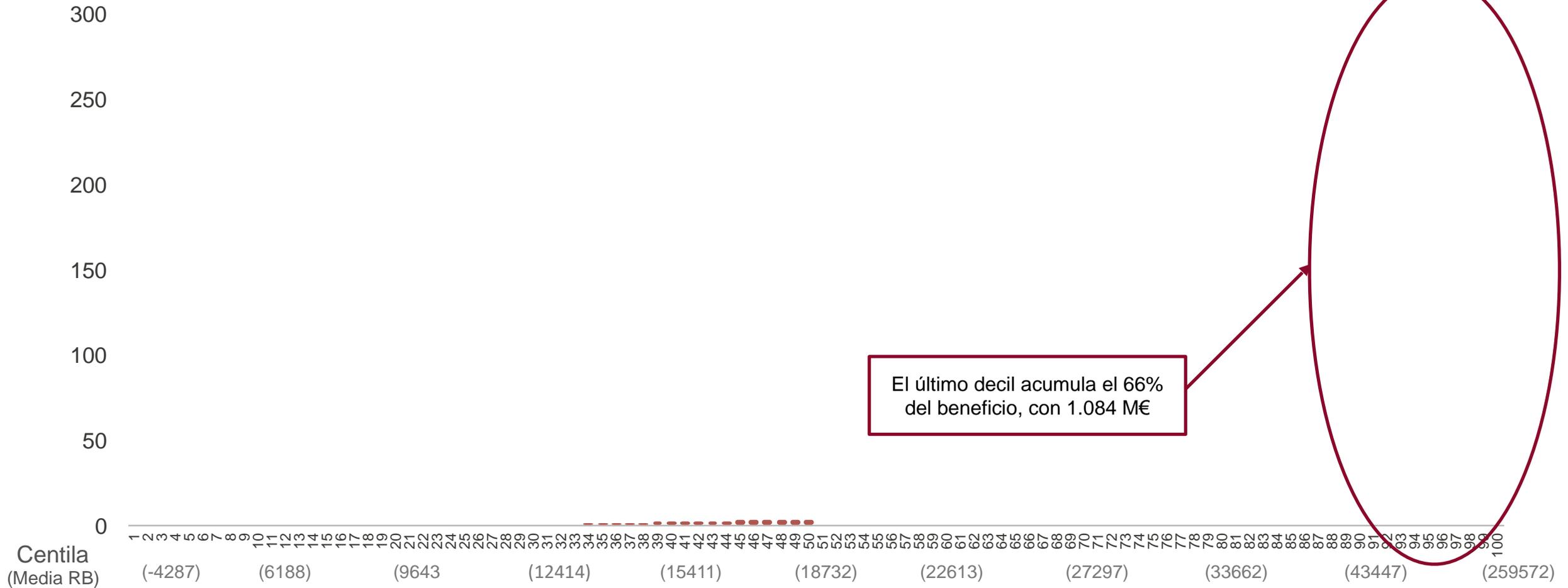
Distribución Cantidades Aportadas a Planes de Pensiones Privados por Importe (entre los que realizan aportaciones)



Source: Own calculations from tax returns (AEAT)

The tax benefit is only used by high incomes

Coste Fiscal (1643 millones, 2,4%)

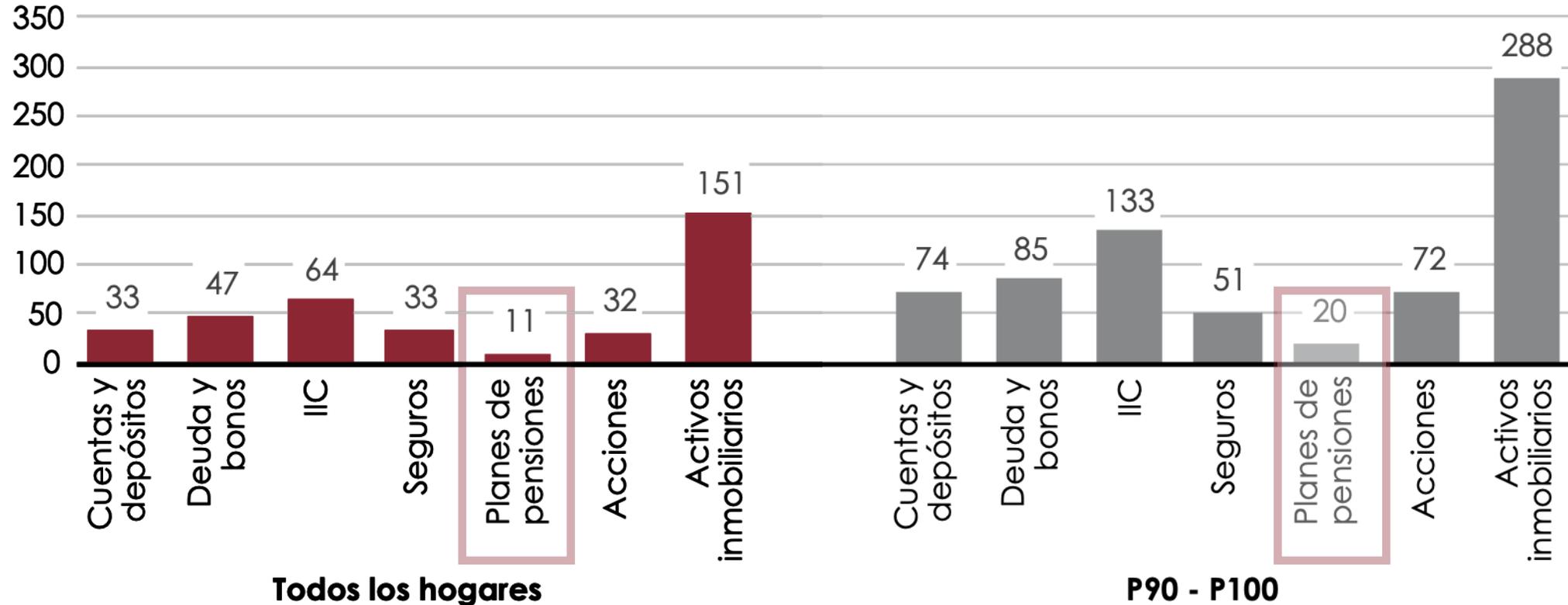


El último decil acumula el 66% del beneficio, con 1.084 M€

Source: Own calculations from tax returns (AEAT)

Savings accumulated in pension plans before retirement are low, even among high incomes

Riqueza media en activos reales y financieros a los 64 años de edad (en miles de euros)

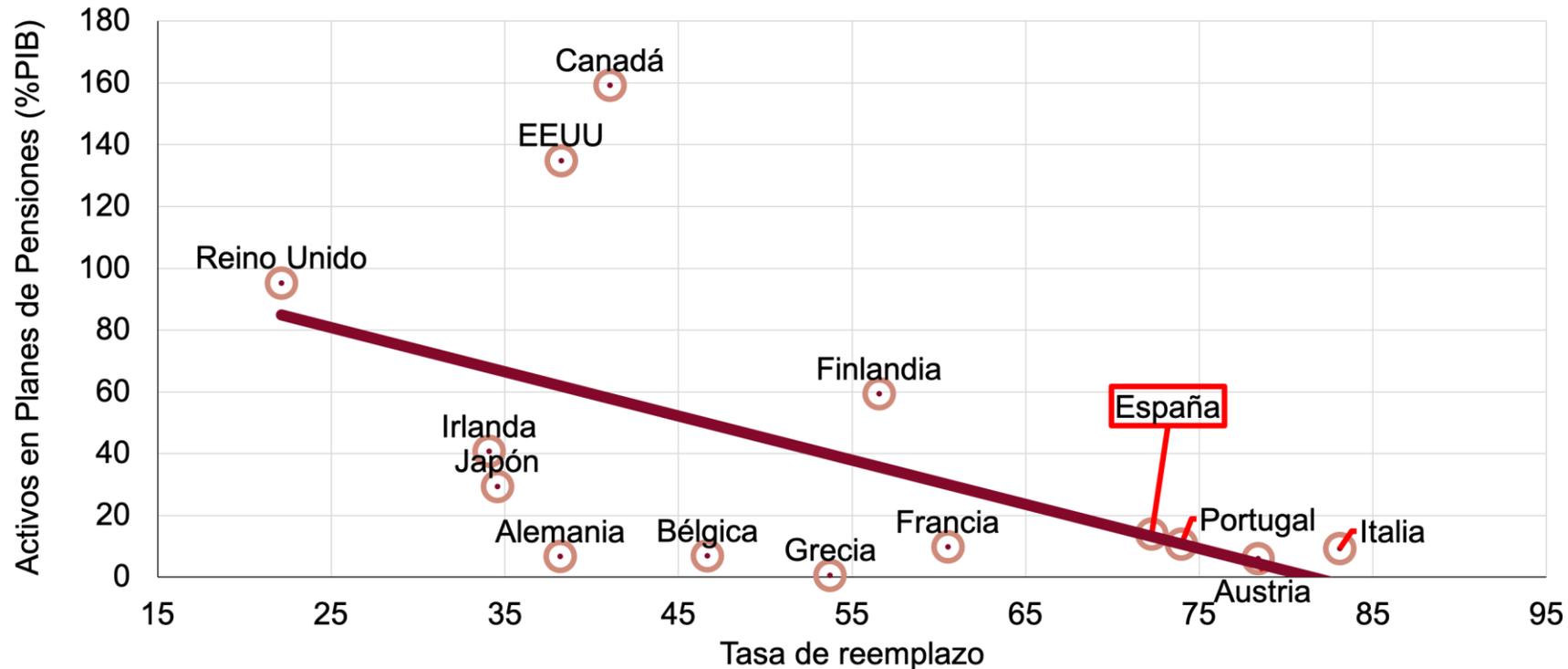


Fuente: elaboración propia a partir de los datos de riqueza proporcionados por la AEAT.

Nota: se incluye declarantes y no obligados no declarantes. Tamaño registro administrativo: 35.502.313 observaciones.

...which happens in most economies in which the public system guarantees a pension that represents a high percentage of the last income

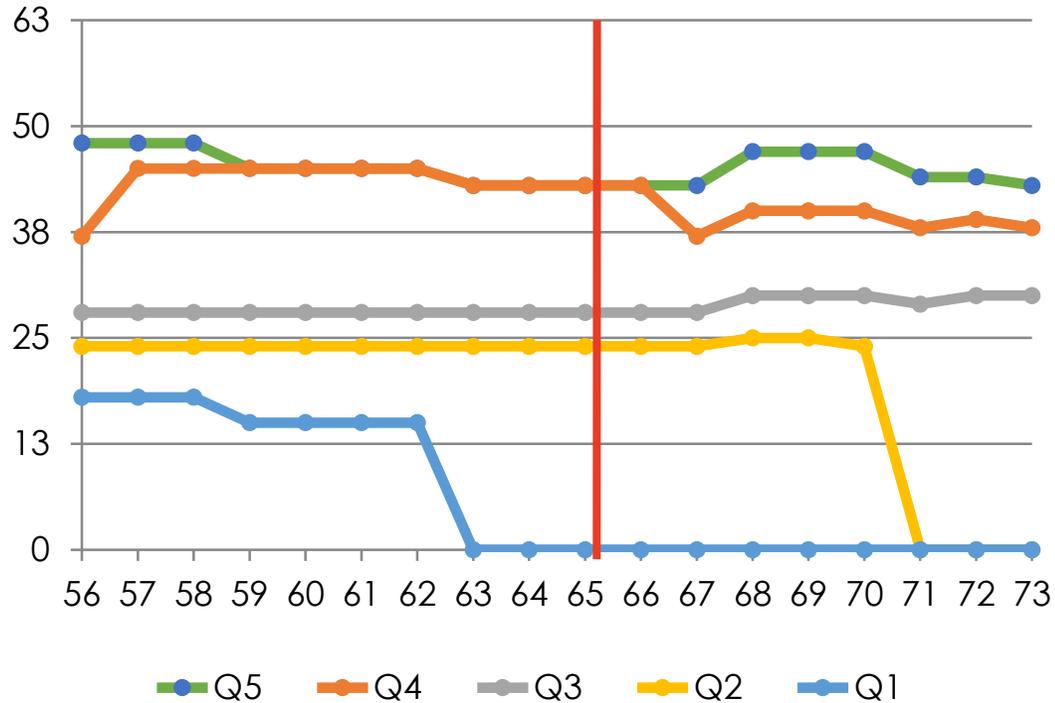
Mandatory public replacement rate and total assets in pension plans (% GDP)



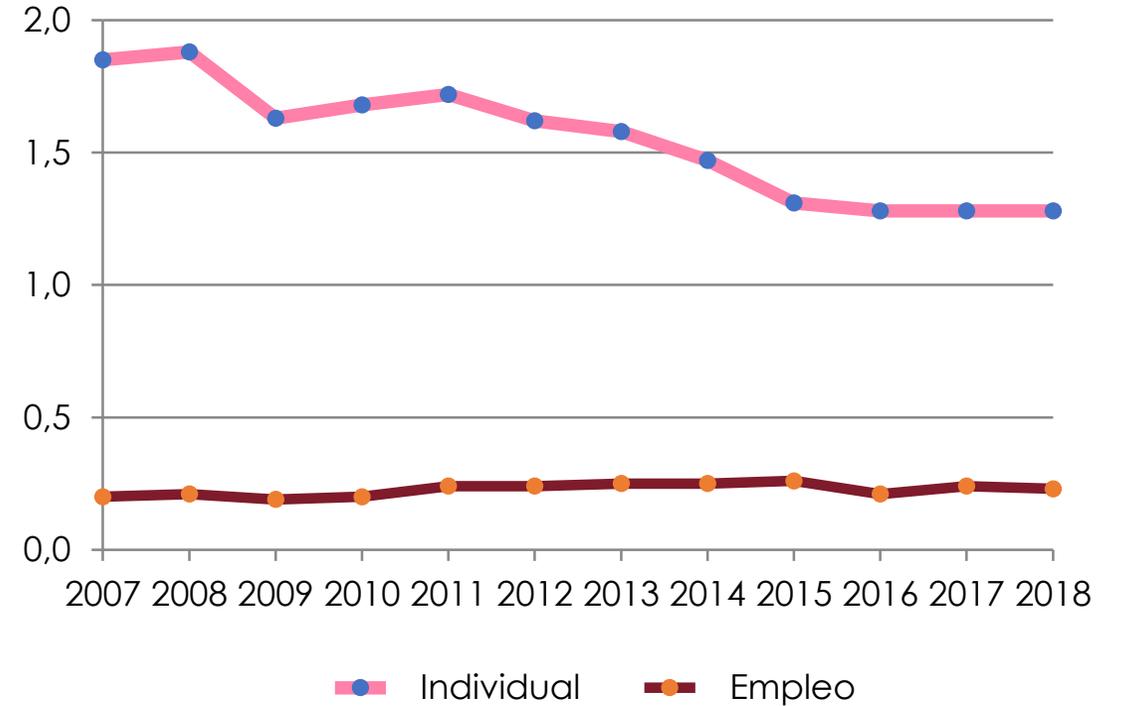
Source: "Pensions at a Glance 2017" OCDE

The evaluation shows the low attractiveness of the tax benefit once the marginal rates and fees are taken into account...

Marginal rate before and after retirement by income quintile



Pension Plans Commissions



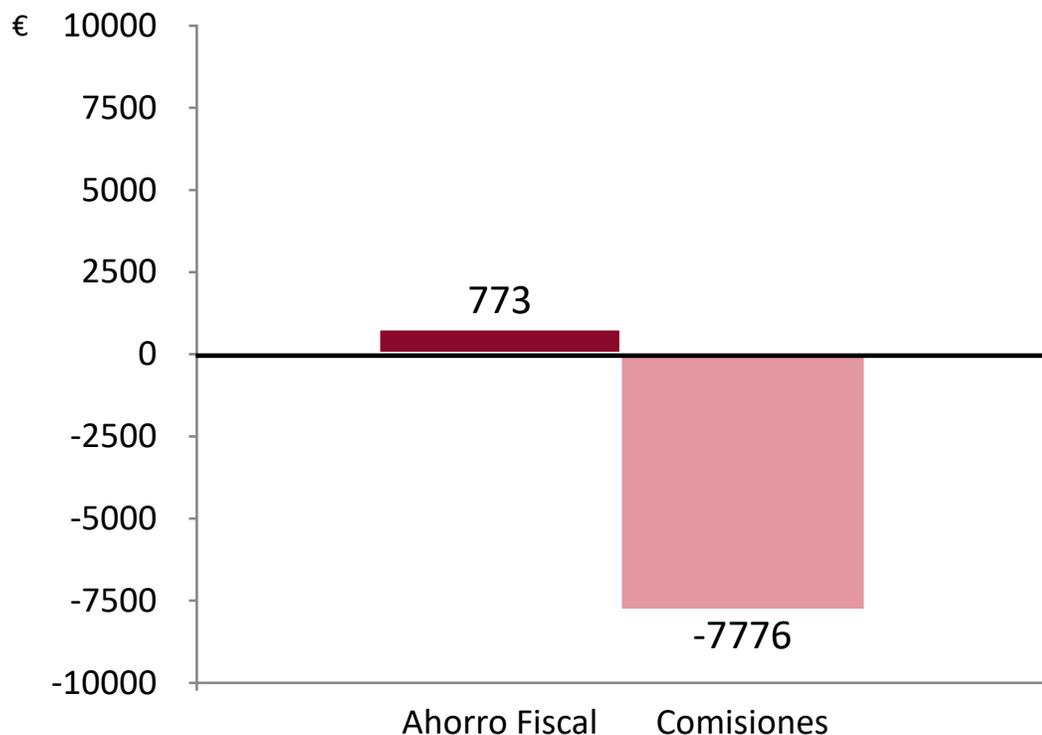
In addition, the pension plan yields are taxed on the general base that has a maximum rate of 45% instead of taxing on the savings base at the maximum rate of 23%, such as investment funds

Source: Own calculations on the PIT Declarants' Panel prepared for this report by the AEAT, and from Inverco and the General Directorate of Insurance

...As show the different simulations carried out

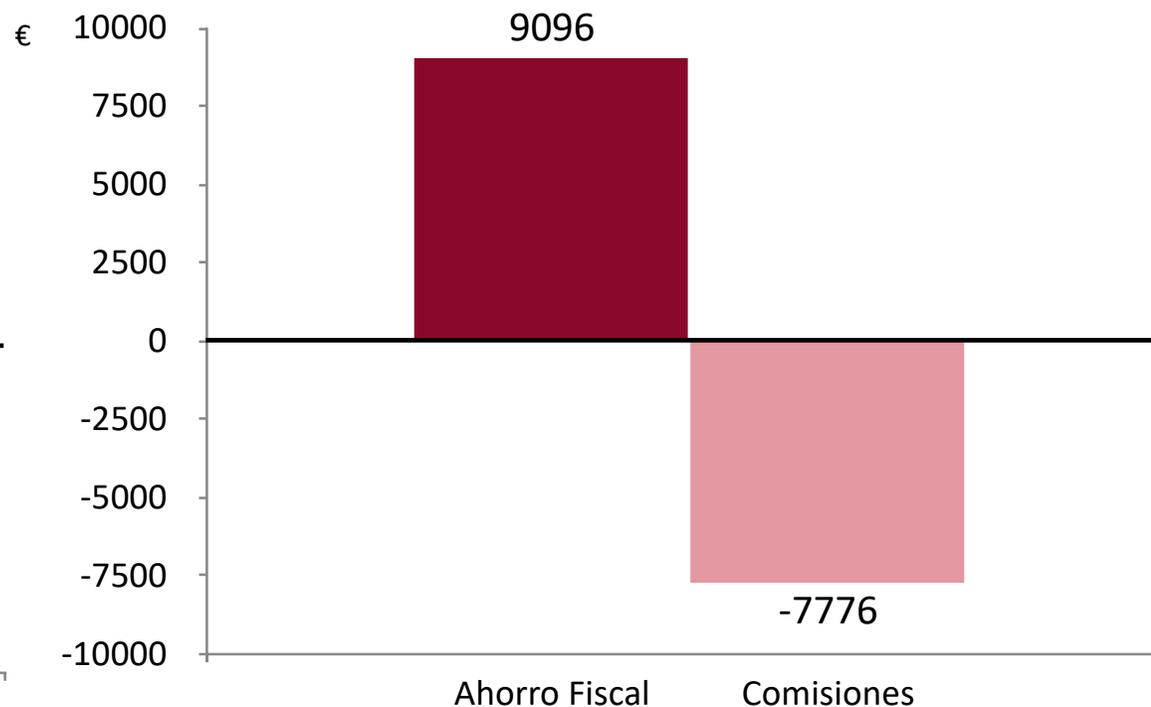
El incentivo no es atractivo para rentas altas

Simulación Real: Rentas altas (20% mayor renta)
Aportación Máxima 8000



El incentivo es atractivo para rentas bajas (sin capacidad de ahorro)

Simulación Real: Rentas bajas (20% menor renta).
Aportación Máxima 8000



Fuente: Elaboración propia a partir del panel de declaraciones de la renta elaborado para este informe por la AEAT)

Reduction for contributions to social welfare systems

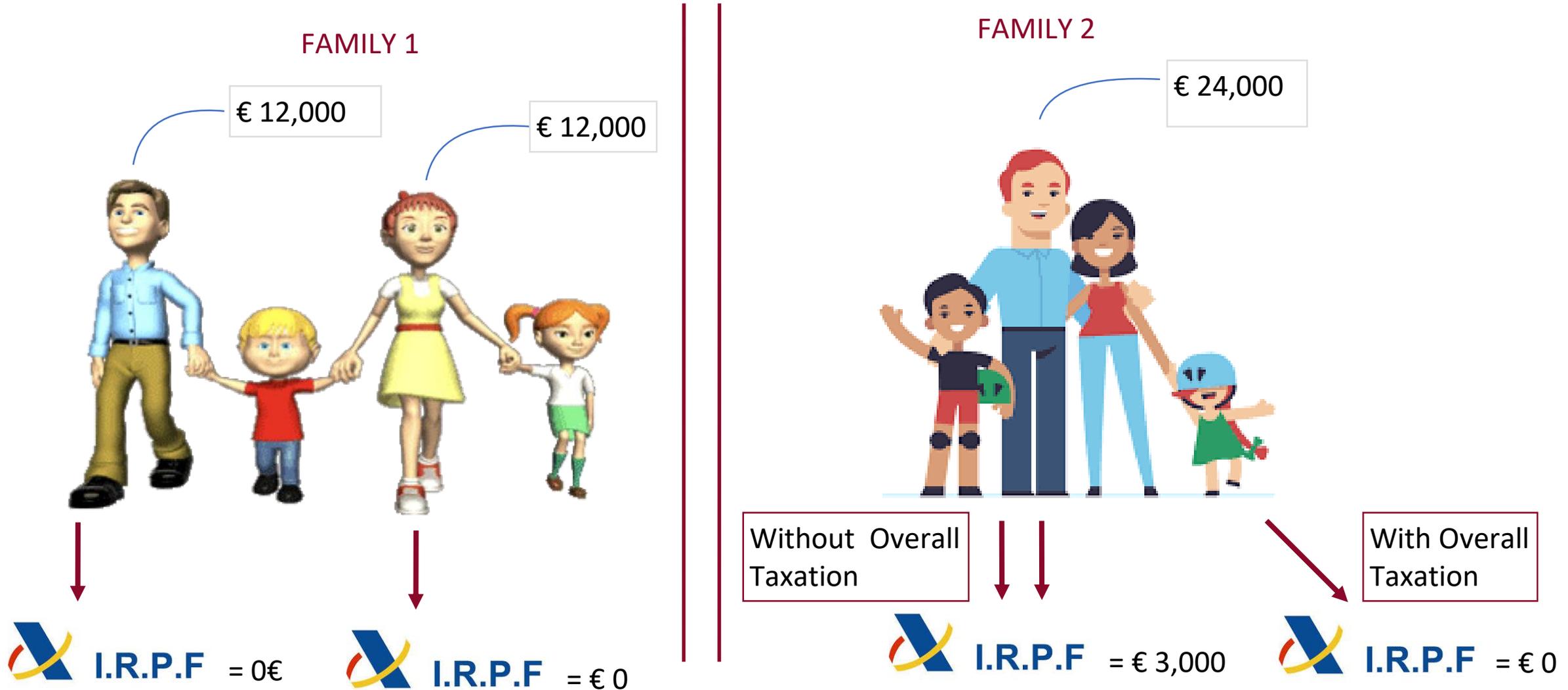
EVALUATION	OBJECTIVE	Encourage long-term savings as a complement to the public pension system.
	COMPLIANCE WITH OBJECTIVE	NO. The evaluation shows that the tax incentive may be negative for a wide range of savers once the taxation of retirement benefits, pension plan fees and the inter-temporal preference rate are taken into account
	PROPOSALS	Complete reformulation of the tax benefit in a manner consistent with the recommendations agreed in the Toledo Pact on long-term complementary savings

Reduction for joint taxation (marriage modality)

Reduction for joint taxation (marriage modality)

	DEFINITION	€3,400 for married couples who choose to make a single declaration
	COST (million €)	2,393
	INEQUALITY	Neutral
EVALUATION	OBJECTIVE	Adapt the tax to the composition of household income
	COMPLIANCE WITH OBJECTIVE	YES , although it generates a disincentive to the second income earner's labour participation, which in practice largely affects women, thus accentuating the Spanish economy's gender gap problems
	PROPOSALS	Accelerate its gradual abolition by establishing a transitional regime so as not to be detrimental to families less able to adapt their employment decisions to the new situation. Offset the negative effect that the tax benefit will continue to have with new incentives for women's labour participation that reduce the gender gap.

The objective of the benefit is to adapt the tax to the structure of household income through a reduction of €3,400, given the progressiveness of PIT



The evaluation concludes that the tax benefit does achieve its objective as it benefits households that only have one income earner...

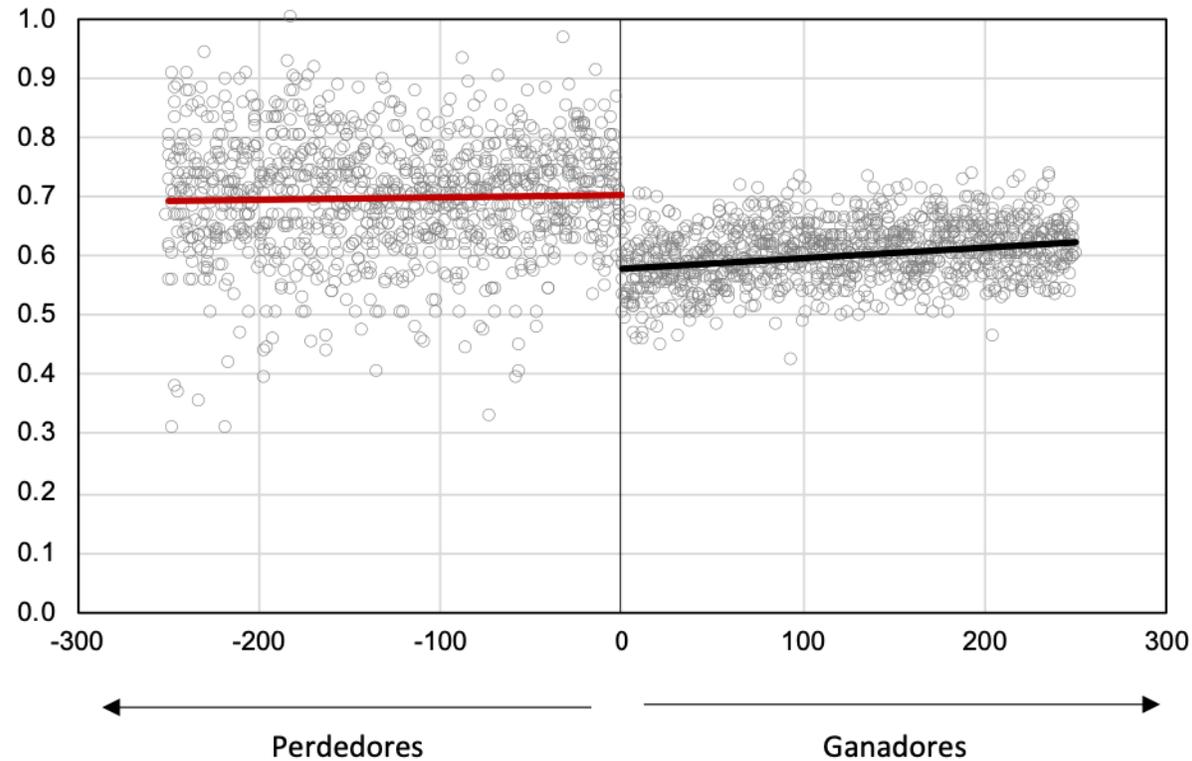
Composition of household income and income level for which the joint declaration is beneficial

% de renta del 2º perceptor	Decila									
	1	2	3	4	5	6	7	8	9	10
	5.825	12.293	15.369	18.114	20.871	24044	28.105	33.479	40.671	85.668
0 - 10	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
10 - 20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
20 - 30	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗
30 - 40	✓	✓	✓	✗	✗	✗	✗	✗	✗	✗
40 - 50	✓	✓	✗	✗	✗	✗	✗	✗	✗	✗

Fuente: Elaboración propia a partir de la población de declarantes de la AEAT 2016.

...although it generates a disincentive for women's labour participation, thus accentuating the Spanish economy's gender gap problems

Labour participation of married women, and saving/cost of the joint declaration



Labour participation of married women, and saving/cost of the joint declaration

Source: Own calculations from the 2016 AEAT Population of Declarants.

Furthermore, joint taxation is gradually being eliminated in the economies around us

		Tributación de las unidades familiares	
		Obligatorio	Opcional
Individual		Austria Bélgica Estonia Grecia Letonia Países Bajos Eslovenia	Australia Canadá Finlandia Italia Lituania Eslovaquia Reino Unido <i>Splitting:</i> Alemania Portugal <i>Escala diferenciada:</i> EEUU Irlanda <i>Reducción:</i> España Luxemburgo
Conjunta		<i>Splitting:</i> Francia	

Source: Taxing Wages, 2019 OECD and each country's own legislation.

Reduction for joint taxation (marriage modality)

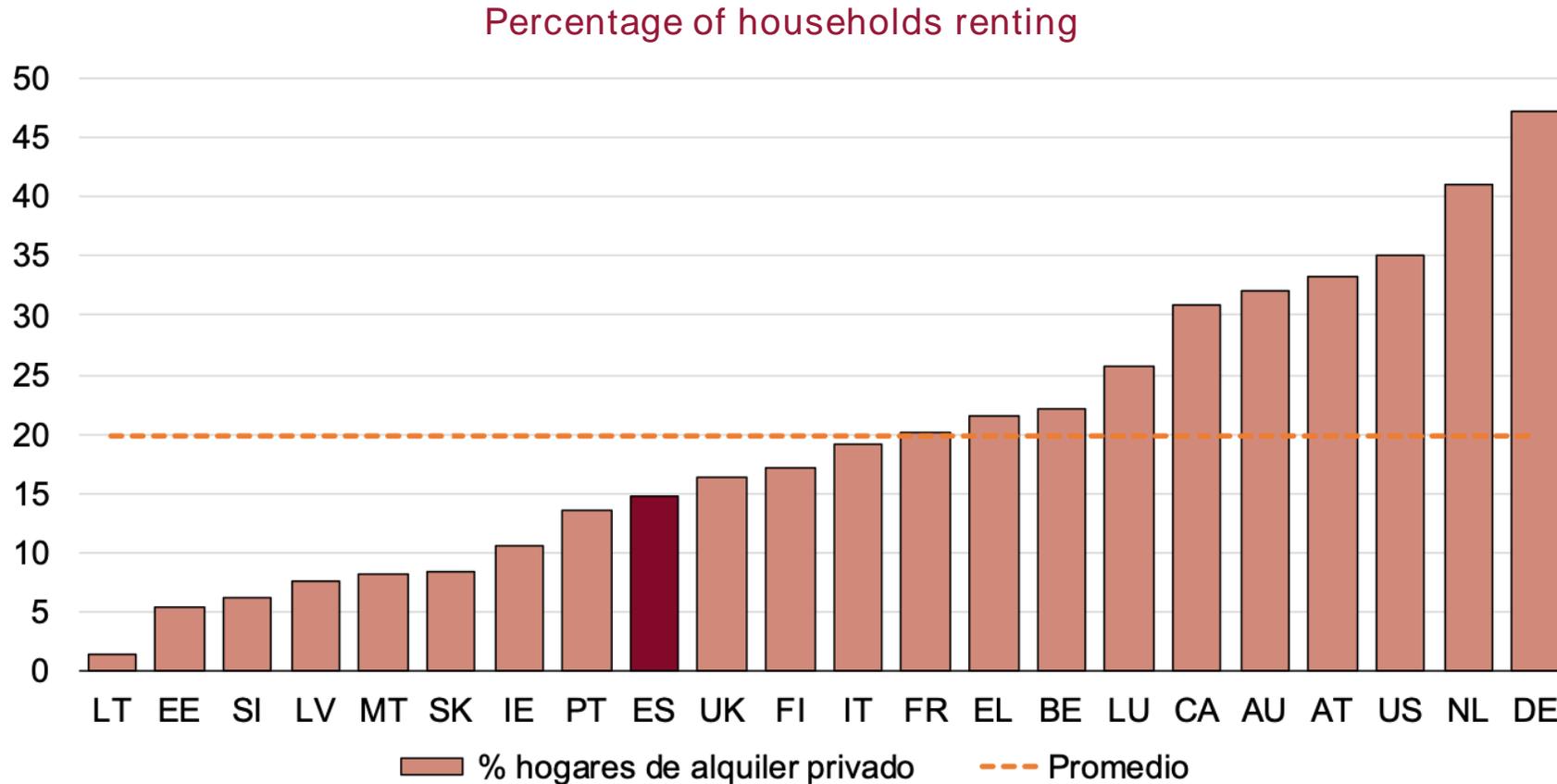
EVALUATION	OBJECTIVE	Adapt the tax to the composition of household income
	COMPLIANCE WITH OBJECTIVE	YES , although it generates a disincentive to the second income earner's labour participation, which in practice largely affects women, thus accentuating the Spanish economy's gender gap problems
	PROPOSALS	<p>Accelerate its gradual abolition by establishing a transitional regime so as not to be detrimental to families less able to adapt their employment decisions to the new situation.</p> <p>Offset the negative effect that the tax benefit will continue to have with new incentives for women's labour participation that reduce the gender gap.</p>

Reduction for housing rental

Reduction for housing rental

	DEFINITION	60% of the net income obtained from the rental of habitual residence
	COST (million €)	1,039
	INEQUALITY	Regressive
EVALUATION	OBJECTIVE	Promote the supply of rental housing
	COMPLIANCE WITH OBJECTIVE	YES , although the difference between the new housing offer and the incomes that emerge from the informal economy cannot be determined. In addition, the assessment identifies the increasing difficulty faced by low-income households in accessing housing, especially in large metropolitan areas.
	PROPOSALS	Reformulate the incentive by reorienting its design to facilitate access to rent for vulnerable groups , taking into account the more acute needs in metropolitan areas. This can be done, for example, by modulating the intensity of the incentive based on the housing rental index by census section of the <i>Ministerio de Transportes, Movilidad y Agenda Urbana</i> o la (Ministry of Transport, Mobility and the Urban Agenda) or registration as social rental housing.

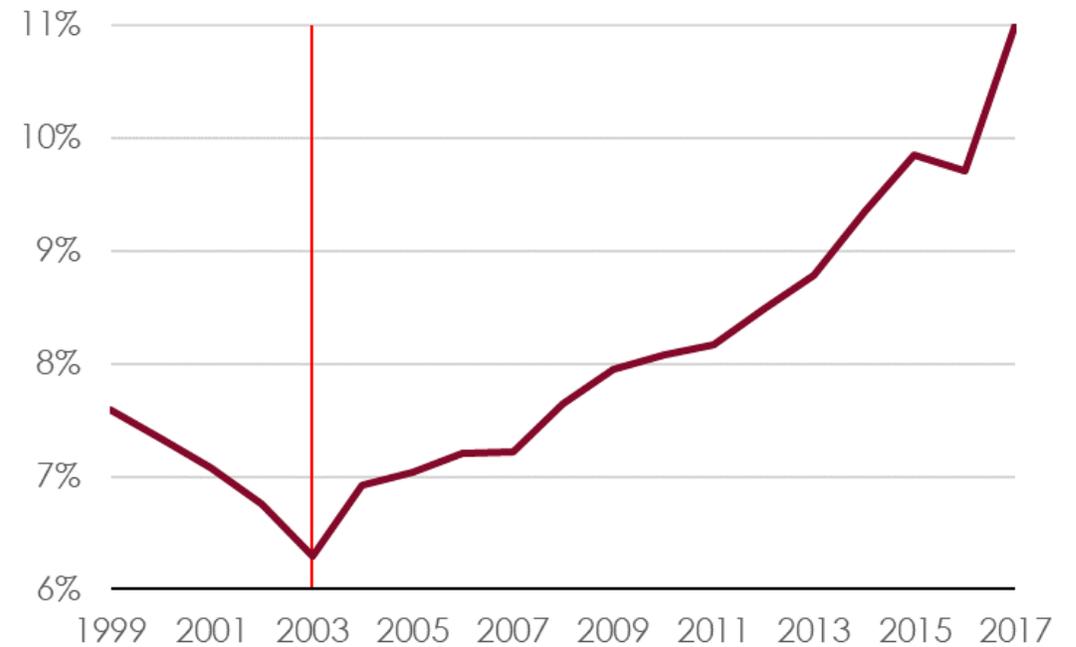
The tax benefit seeks to promote the supply of rental housing by reducing the landlord's rental income by 60%



Source: Affordable Housing Database OCDE (2019). Countries with available data and considered most comparable have been selected.

The evaluation concludes that the incentive DOES achieve the objective, although it cannot be determined whether this is due to a new supply of housing or to the income that emerges from the informal economy

average income and % of declarants with rental income (euros and percentage points, respectively)

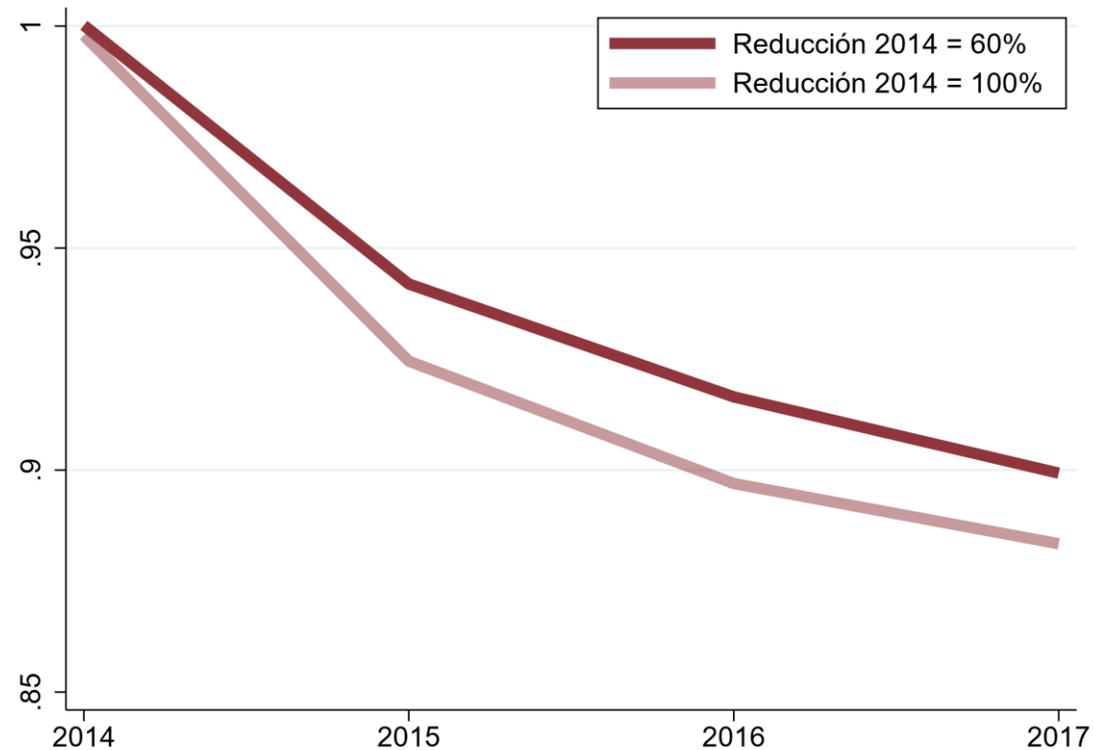


Source: Panel of declarants prepared for this report by the AEAT.

Notes: the regressions control for the Regions' fixed effects and the declarant's income level. Only the Regions under the general tax regime are included.

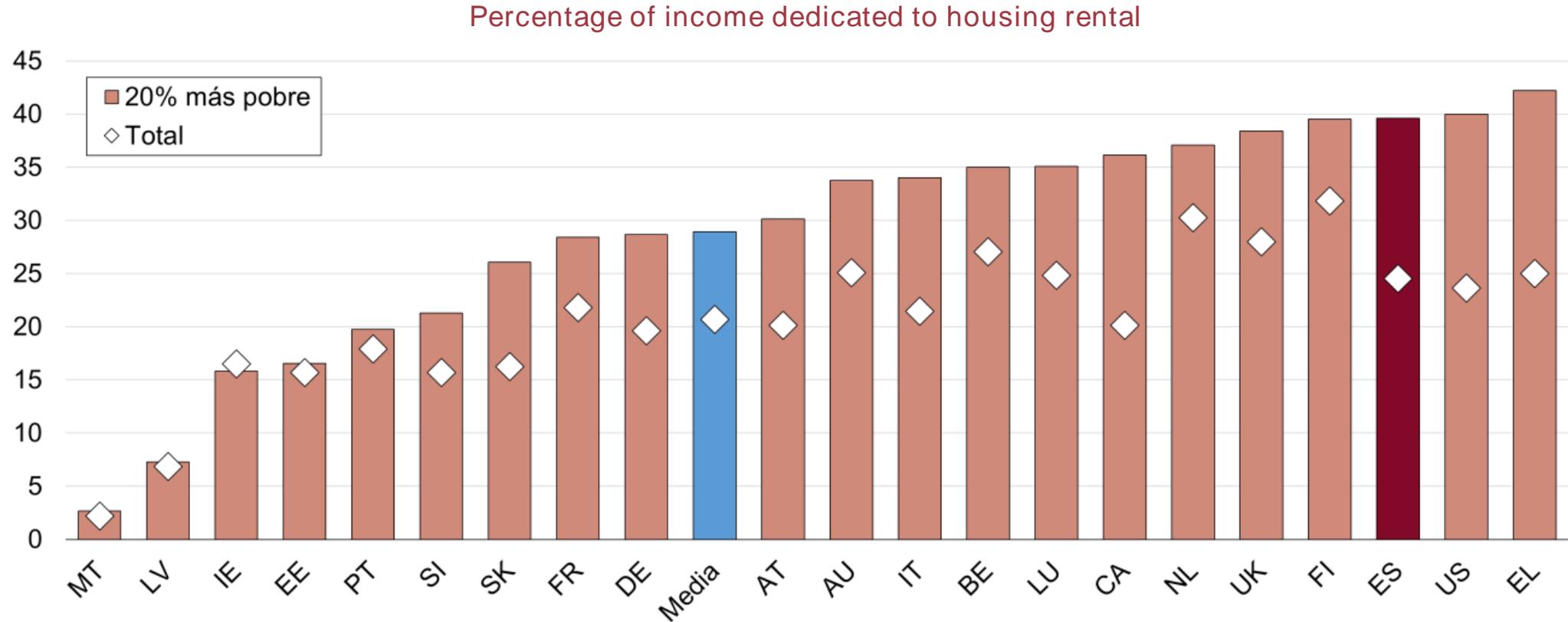
Since 2015, the tax benefit has not modulated in its intensity depending on the landlord's profile, which has decreased the incentive's attractiveness

Probability of a property being rented between 2014 and 2017 (probability in 2014 = 1)



Source: Complementary database provided by the AEAT.
Notes: regression controls for the Regions' fixed effects.

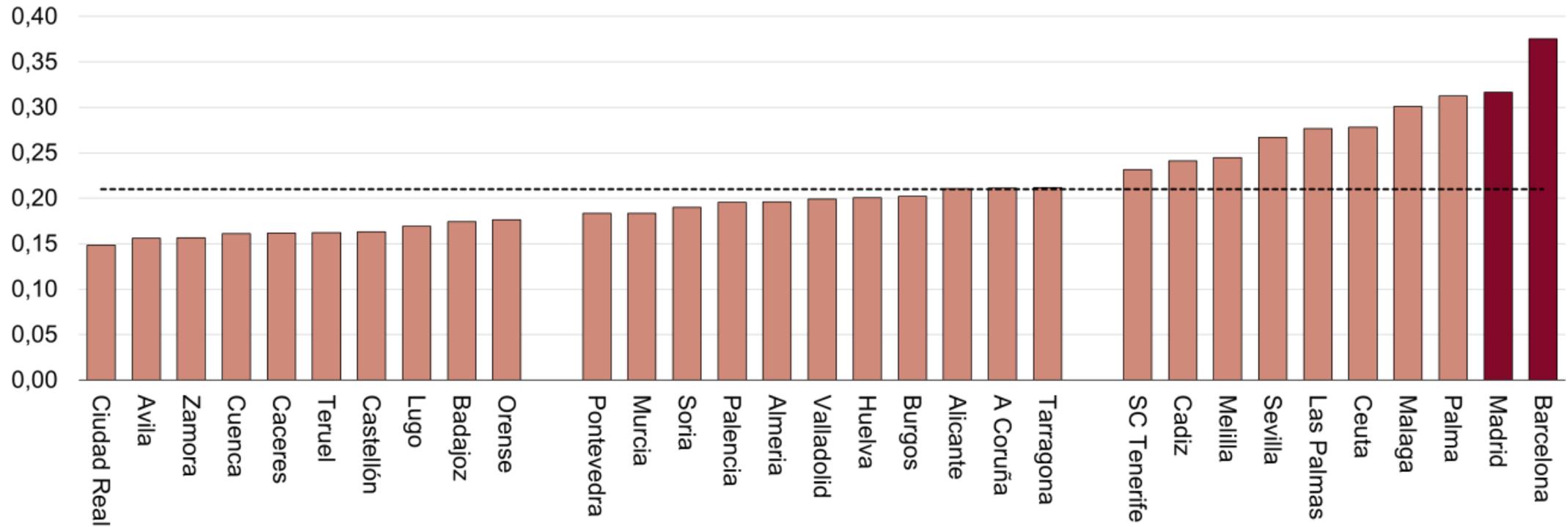
In turn, the evaluation shows the increasing difficulty faced by the most vulnerable in society in accessing the rental market...



Source: "Affordable Housing Database", OECD (2010, or latest available)

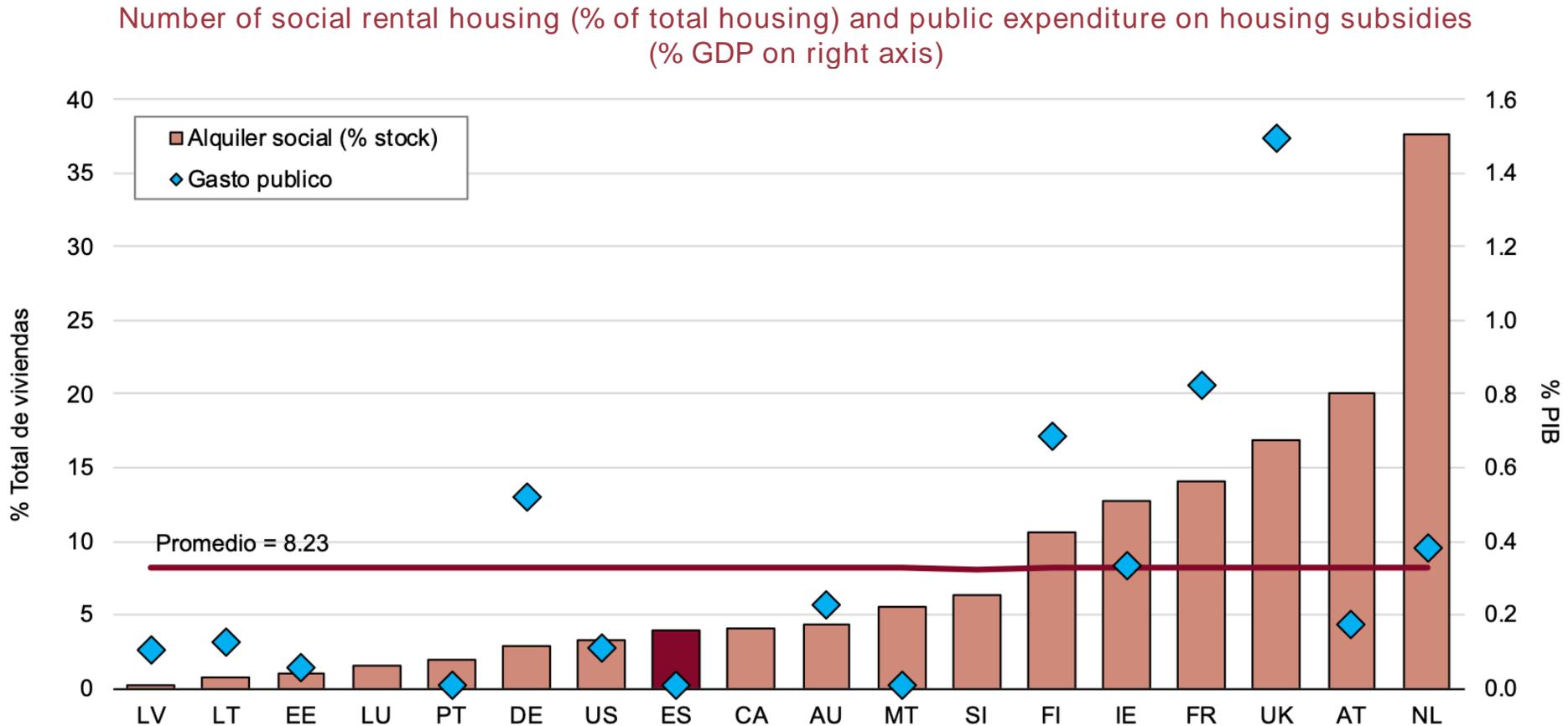
...especially in large metropolitan areas

Percentage of income allocated to renting a 70m2 apartment (2017) in the province capitals



Source: own calculations from INE and Idealista.com data

In a context in which the amount of social rental housing and state aid is low



Source: "Affordable Housing Database", OECD (2017, or latest available for social rental)

Reduction for housing rental

EVALUATION	OBJECTIVE	Promote the supply of rental housing
	COMPLIANCE WITH OBJECTIVE	YES , although the difference between the new housing offer and the incomes that emerge from the informal economy cannot be determined. In addition, the assessment identifies the increasing difficulty faced by low-income households in accessing housing , especially in large metropolitan areas.
	PROPOSALS	Reformulate the incentive by reorienting its design to facilitate access to rent for vulnerable groups , taking into account the more acute needs in metropolitan areas. This can be done, for example, by modulating the intensity of the incentive based on the housing rental index by census section of the <i>Ministerio de Transportes, Movilidad y Agenda Urbana</i> (Ministry of Transport, Mobility and the Urban Agenda) or registration as social rental housing.

Reduced VAT rates 4%
and 10%

Reduced rates: 4% (super-reduced / 10% reduced)

	DEFINITION	Lower than general tax rates (21%) for the consumption of basic goods and services or for their social, cultural or strategic nature..
	COST (million €)	17,786 (super-reduced rate: 5323; reduced rate: 12,463)
	INEQUALITY	Progressive, although it depends on each product
EVALUATION	OBJECTIVE	Facilitate access to essential social, cultural or strategic goods and services
	COMPLIANCE OBJECTIVE WITH	<p>YES, although it does not meet the objective efficiently from a distributional point of view</p> <p>By lowering consumption taxes, reduced rates benefit higher incomes, which are the ones that spend the most. This effect is accentuated in those items of expenditure at reduced rates that are most consumed by high-income households (restaurants, tourist packages, hotels, books, gardening...).</p> <p>Furthermore, the evaluation highlights distributional inefficiency when comparing reduced rates with other expenditure policies that are more focused on specific groups or sectors and that manage to reduce inequality much more than reduced rates using fewer public resources.</p> <p>Lastly, the existence of a high proportion of expenditure at reduced rates explains the lower VAT collection in Spain compared to our European partners.</p>
	PROPOSALS	<p>Gradual revision, accompanied by the recovery of the economy, of the reduced VAT rates to improve the distributive efficiency of the tax, in relation to those goods currently taxed at reduced rates that are mainly consumed by high-income earners. To avoid being detrimental to lower-income households and avoid increasing inequality in the distribution of income, it is necessary to articulate both expenditure measures aimed at the most vulnerable groups, that guarantee better access to these assets, as well targeted plans for the promotion and improvement of the quality of the strategic sectors that are intended to be favoured through the tax benefit.</p>

The tax benefit of reduced rates is intended to facilitate access to the consumption of basic social, cultural or strategic necessities

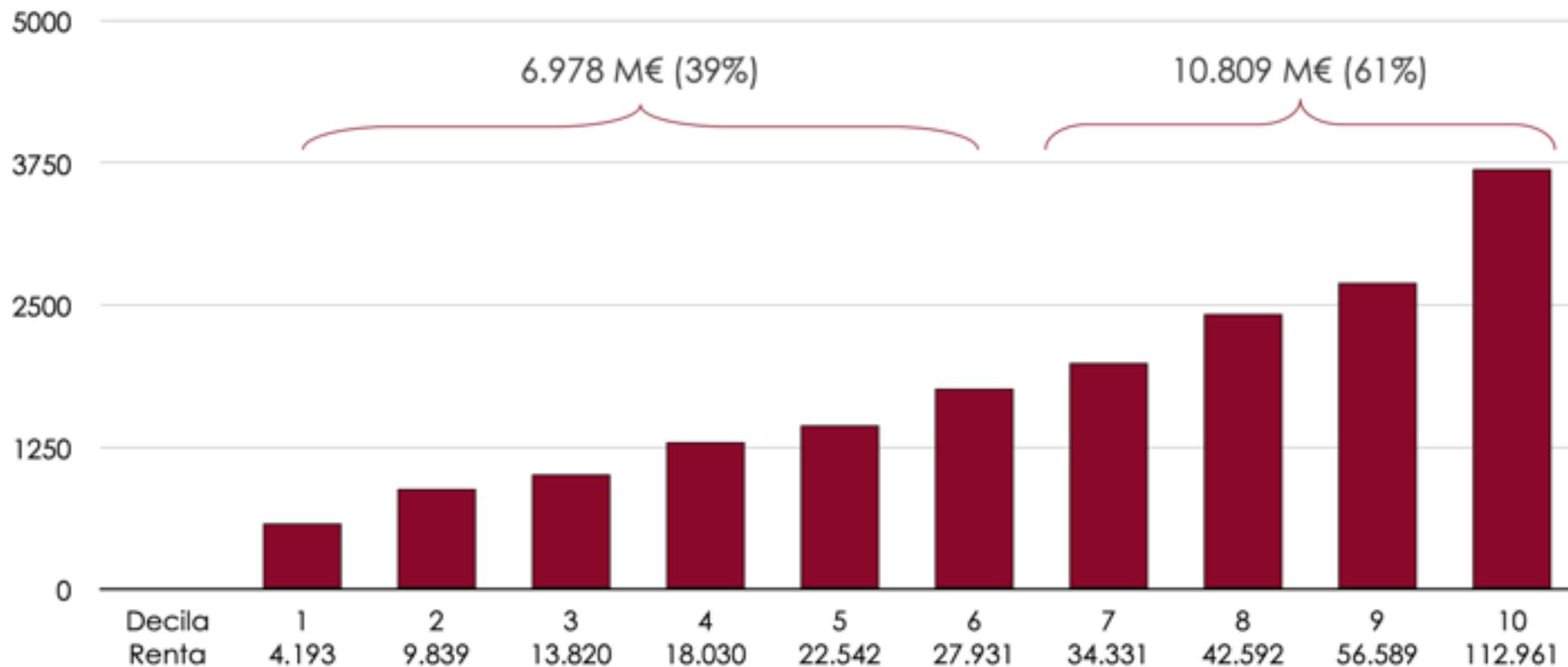
VAT rates in the Eurozone

Países con dos tipos			Países con tres o más tipos			
País	Reducido	General	País	Superreducido	Reducido	General
Eslovenia	9,6	22	Grecia			24
Letonia	12	21	Finlandia			24
Holanda	9	21	Irlanda	4,8	9 13,5	23
Estonia	9	20	Portugal		6 13	23
Eslovaquia	10	20	Italia	4	5 10	22
Alemania	7	19	Bélgica		6 12	21
			España	4	10	21
			Lituania		5 9	21
			Francia	2,1	5,5 9	20
			Austria		10 13	20
			Chipre		5 9	19
			Malta		5 7	18
			Luxemburgo	3	8	17

Fuente: TAXUD.

It complies the objective, but it does not do so efficiently from a distribution point of view

Fiscal cost of reduced rates by gross income deciles, in millions (total = € 17,787M)

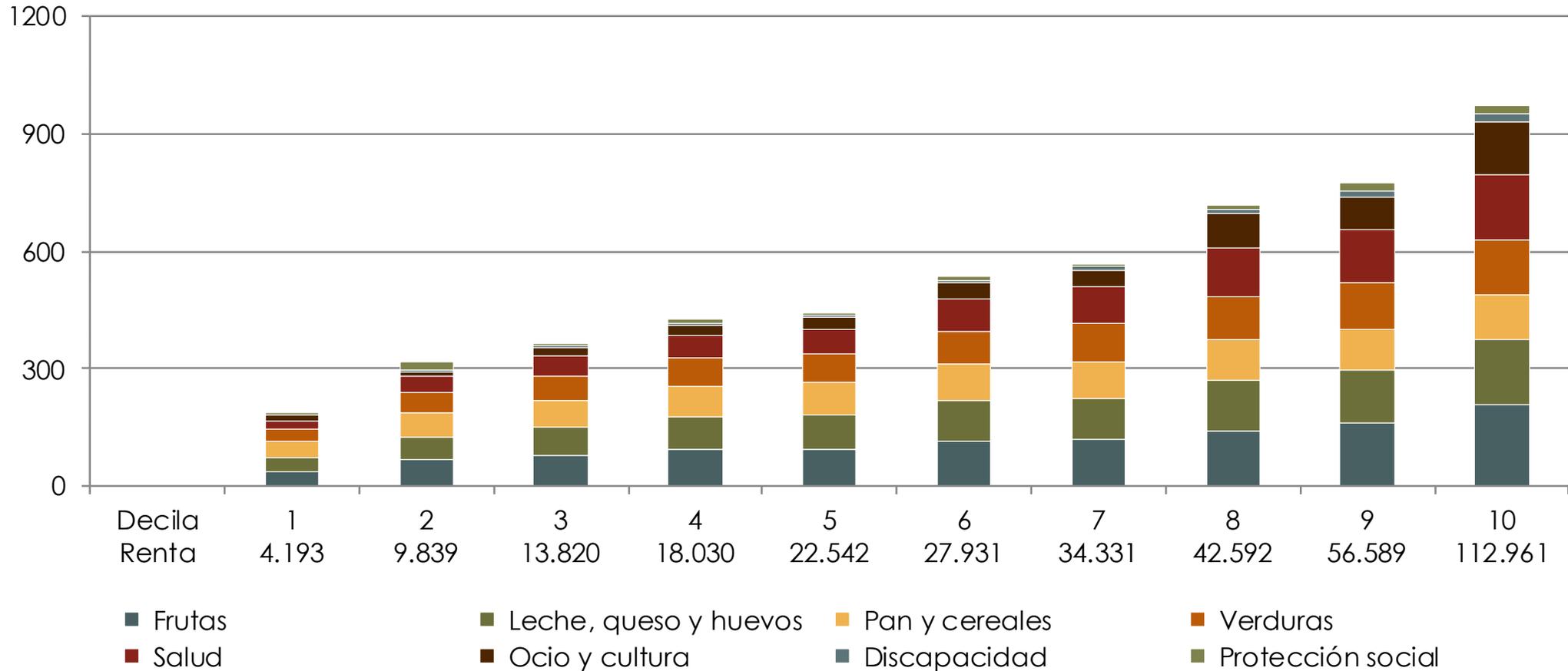


The benefit is concentrated in high-income households that consume the most

Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency).

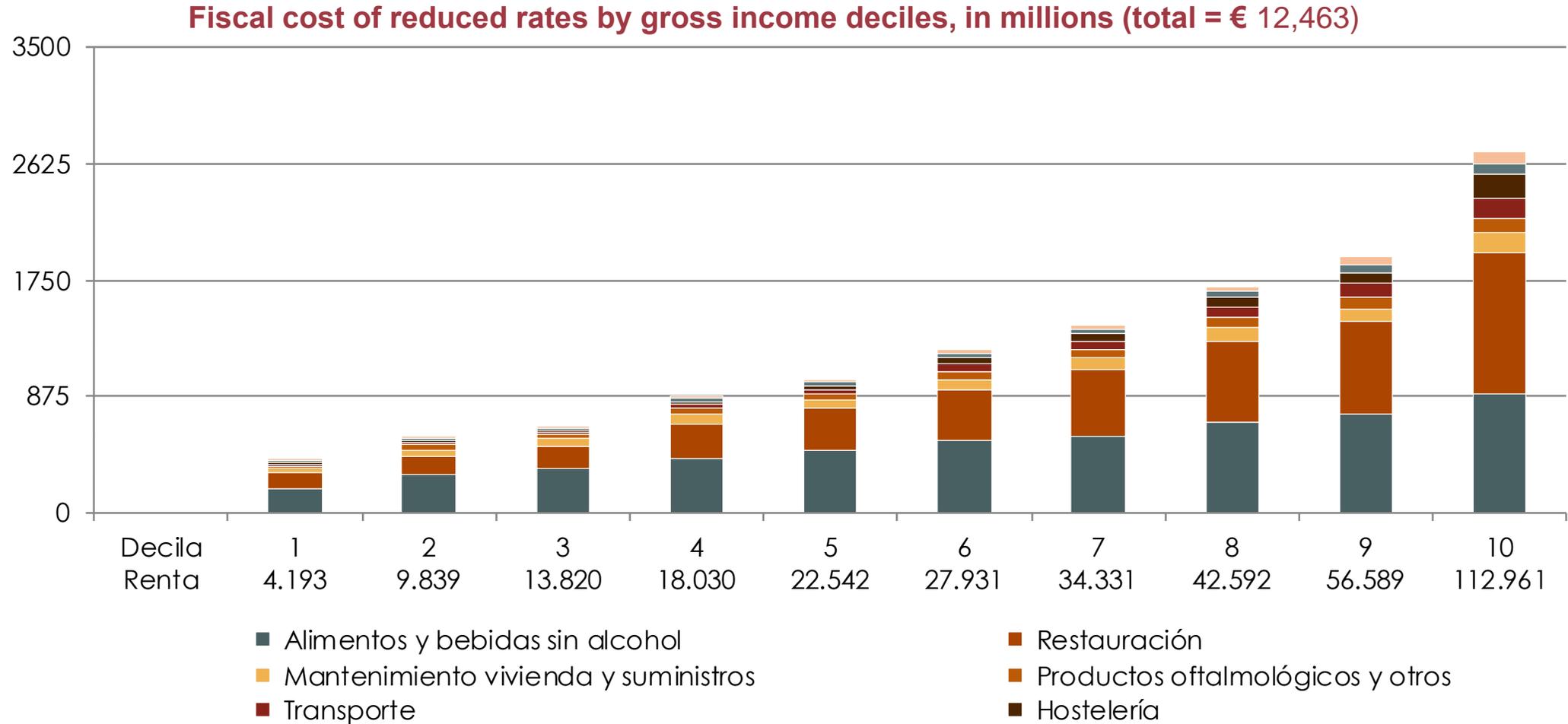
The benefit of super-reduced rates (4%) is concentrated in upper-middle income earners

Fiscal cost of super-reduced rates by gross income deciles, in millions (total = € 5,327M)



Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency).

...and this effect is more pronounced for goods taxed at reduced rates (10%)



Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency).

The concentration is especially significant in some goods and services

Goods in which more than 70% of the fiscal benefit goes to upper-middle incomes (>€40,000)

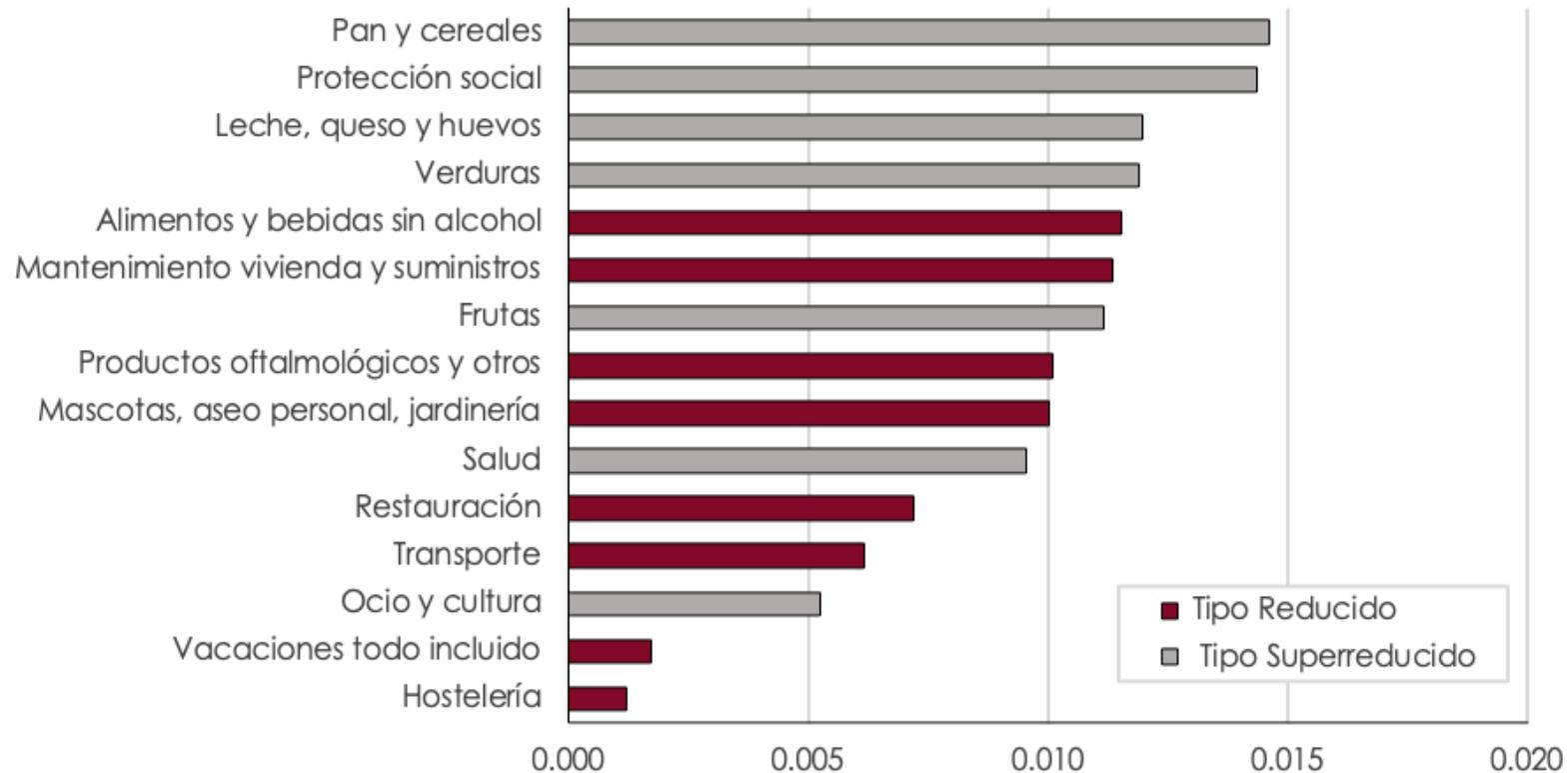
Goods	Amount (Mill. €)
Restaurants, cafés, etc	4,860
Passenger transport	560
Hostelry	490
Books and Press	483
Tourist Packages	303
Gardening	67
TOTAL	6,763

Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency).

Note: Households with a gross income of over €40,000 are considered upper-middle income. These amounts do not include the consumption of foreigners in Spain.

Contributions to the reduction of inequality is heterogeneous depending on the goods

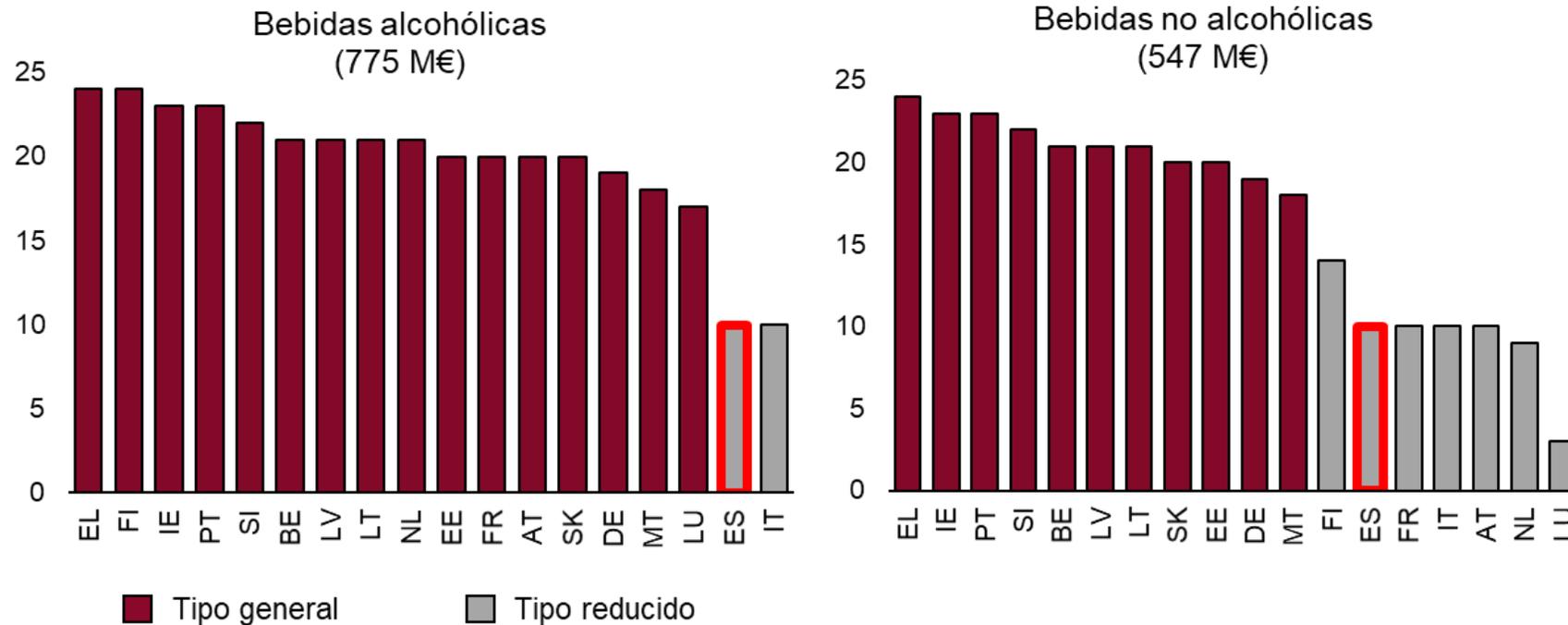
Reduction of the Gini Index for every 100 million euros allocated to reduced rates by type of product, in percentage points



Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency).

In some of these goods, taxation is far from that of the countries around us

Catering services taxed at the reduced rate of 10% in Spain and comparison with the rates in the Eurozone

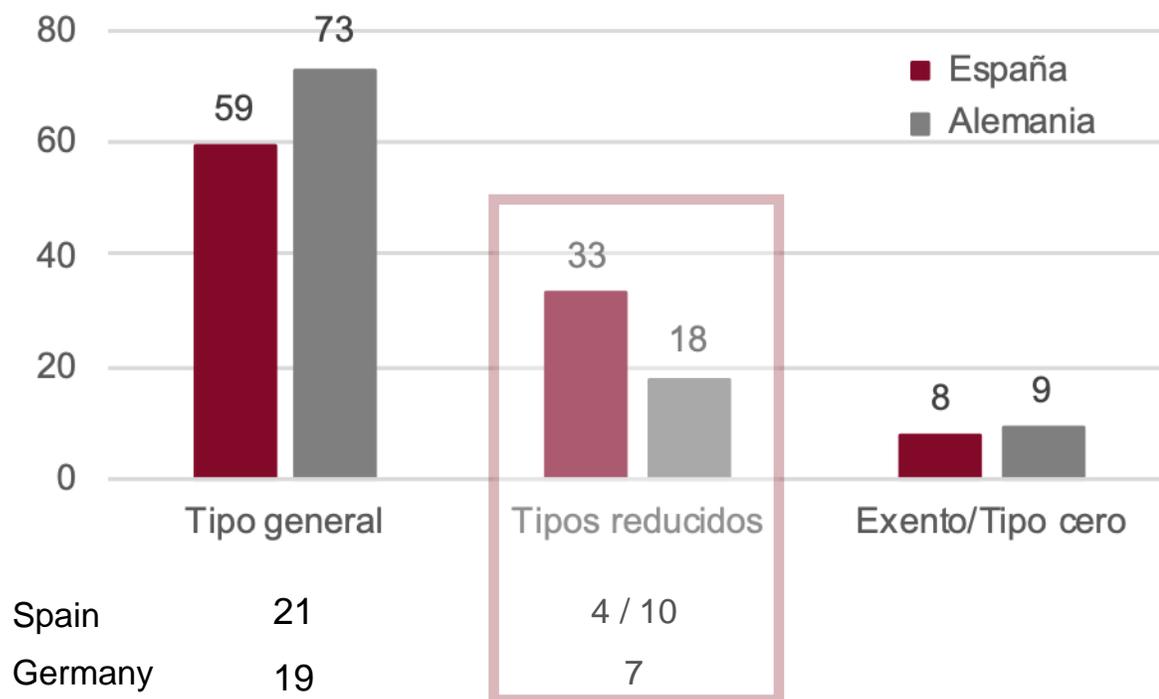


Source: TAXUD and national legislation.

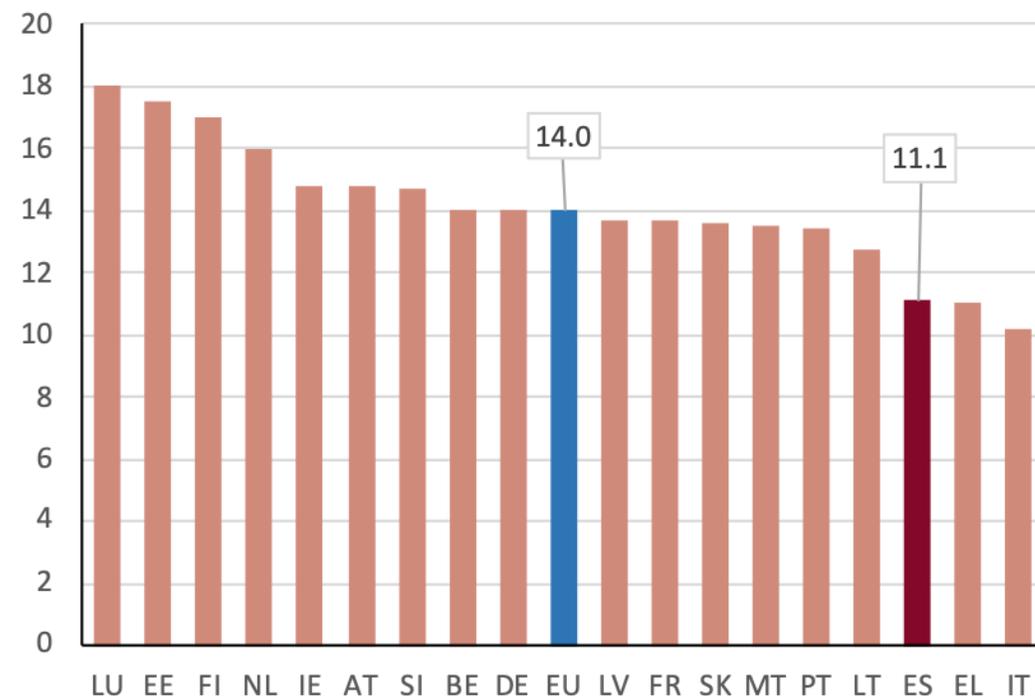
Alcoholic and non-alcoholic beverages at catering venues are taxed at the reduced rate of 10%, while in supermarkets they are taxed at the general rate of 21%

These goods contribute to a higher proportion of expenditure at reduced rates in Spain, which explains the difference in consumption tax compared to our European partners

Percentage of expenditure at reduced rates and rates of each country



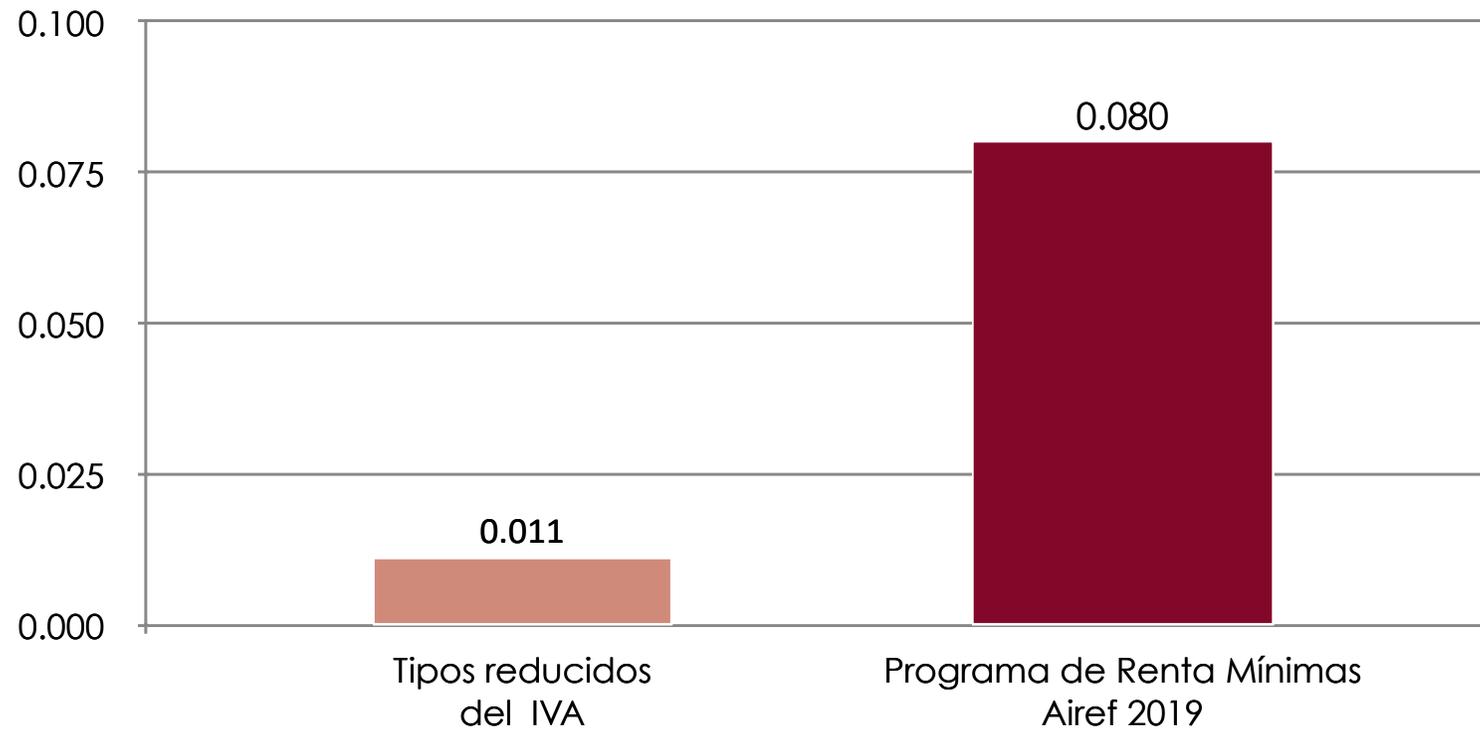
Implicit VAT rates (total VAT collection between total consumption of private households) of EUROZONE countries



Source: Own calculations based on TAXUD data and national legislation.

The reduced rates are less efficient from the distribution point of view than other policies more focused on specific groups or objectives

Reduction of the Gini index for every 100 million euros allocated to reduced rates and to AIReF's minimum income programme (2019), in percentage points



Source: Own calculations from the merger of consumption data from the Household Budget Survey (INE) with the Fiscal Data from Gross Income Declarations (Tax Agency) and AIReF's report "Minimum Income programmes in Spain" 2019.

Finally, the effects that changes in reduced rates usually have on demand have been estimated

Efecto recaudatorio estimado tras eliminar los tipos reducidos por categorías de bienes y servicios

Categorías	Sin cambios en la demanda	Con cambios en la demanda
Alimentos y bebidas sin alcohol	8.904	8.515
Bebidas alcohólicas	0	0
Tabaco	0	0
Ropa y calzado	0	0
Suministros domésticos	454	403
Bienes no duraderos	314	208
Salud	742	667
Combustibles	0	0
Transporte	561	445
Comunicaciones	0	0
Ocio y cultura	803	500
Restauración	4.273	2.467
Hostelería	489	489
Otros no duraderos	141	124
Bienes duraderos	1.105	—
TOTAL	17.786	13.819 *

Fuente: elaboración propia a partir de un microsimulador fiscal con datos de la EPF.

Nota: no incluye bienes duraderos por no poderse estimar correctamente su elasticidad en un sistema de demanda.

Reduced rates: 4% (super-reduced / 10% reduced)

EVALUATION	OBJECTIVE	Facilitate access to essential social, cultural or strategic goods and services
	COMPLIANCE WITH OBJECTIVE	<p>YES, although it does not meet the objective efficiently from a distributional point of view.</p> <p>By lowering consumption taxes, reduced rates benefit higher incomes, which are the ones that spend the most. This effect is accentuated in those items of expenditure at reduced rates that are most consumed by high-income households (restaurants, tourist packages, hotels, books, gardening...).</p> <p>Furthermore, the evaluation highlights distributional inefficiency when comparing reduced rates with other expenditure policies that are more focused on specific groups or sectors and that manage to reduce inequality much more than reduced rates using fewer public resources.</p> <p>Lastly, the existence of a high proportion of expenditure at reduced rates explains the lower VAT collection in Spain compared to our European partners</p>
	PROPOSALS	<p>Gradual revision, accompanied by the recovery of the economy, of the reduced VAT rates to improve the distributive efficiency of the tax, in relation to those goods currently taxed at reduced rates that are mainly consumed by high-income earners.</p> <p>To avoid being detrimental to lower-income households and avoid increasing inequality in the distribution of income, it is necessary to articulate both expenditure measures aimed at the most vulnerable groups, that guarantee better access to these assets, as well as targeted plans for the promotion and improvement of the quality of the strategic sectors that are intended to be favoured through the tax benefit.</p>

Reduced rates in CIT: SICAV



Reduced CIT rates for SICAV

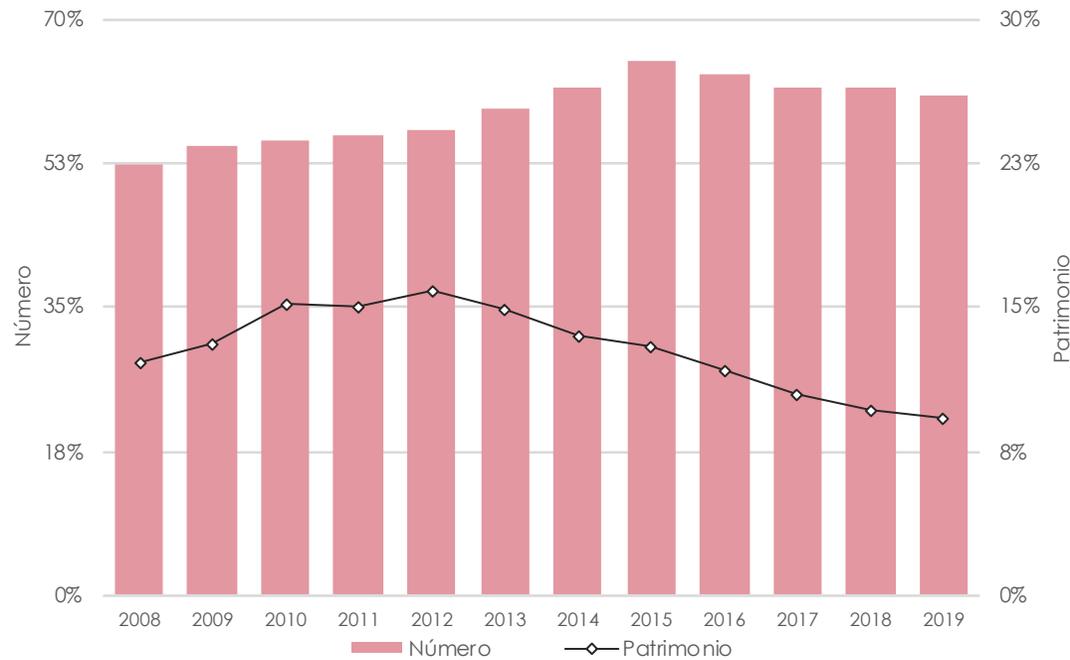
	DEFINITION	Reduced tax rates of 1% in Corporate Income Tax
	COST (million €)	323
EVALUACIÓN	OBJECTIVE	SICAV: Promote collective and diversified investment
	COMPLIANCE WITH OBJECTIVE	INCONCLUSIVE , despite the reinforced requirements existing in Spanish regulations (having a minimum number of one hundred shareholders), a high concentration of investment is detected in the hands of a limited number of shareholders that cast doubt over the investment's collective nature.
	PROPOSALS	SICAVs: Reinforce the requirements to improve effective compliance with the collective nature of the investment in the terms provided in our regulations (e.g., set a maximum limit for participation per shareholder).

The tax benefit is intended to promote collective and diversified investment by applying a tax rate of 1% instead of 25% in CIT

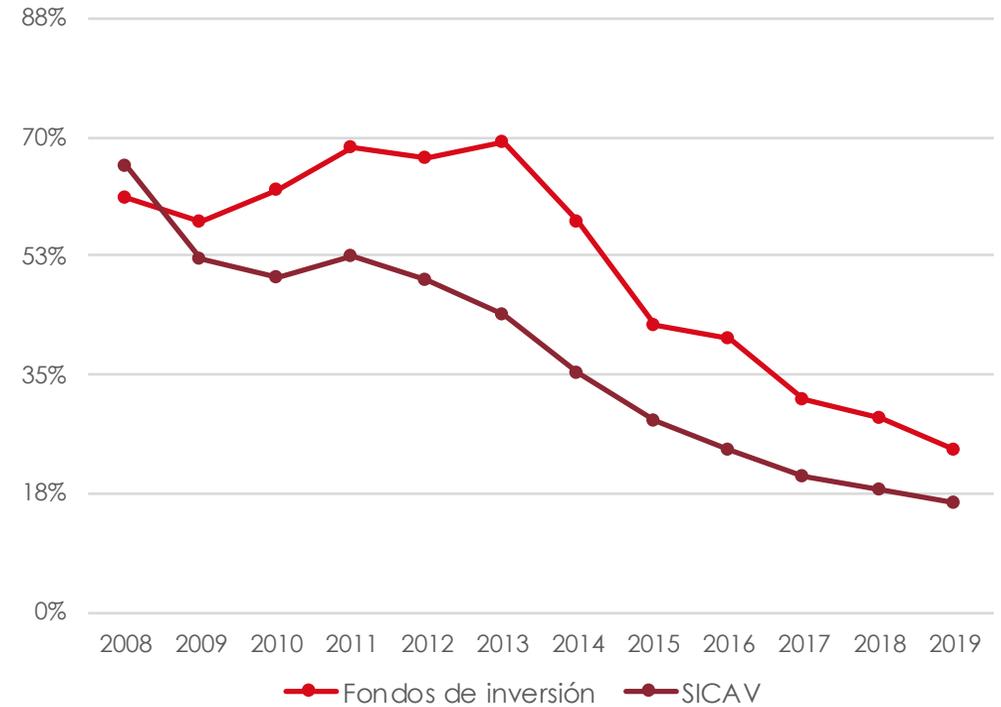
- Same tax treatment and requirements as investment funds:
 - Minimum share capital **2,4 million euros**
 - Reinforced nature of the collective requirement compared to the European directive: **number of shareholders equal to or greater than 100**
- These exist in most nearby countries
- Just over 80% of SICAVs are listed on the alternative stock market
- Control of the *Comisión Nacional del Mercado de Valores* (National Securities Market Commission - CNMV) and the *Dirección General del Tesoro y Política Financiera* (General Directorate of the Treasury and Financial Policy)
- The fundamental advantage of SICAVs in relation to investment funds is the greater flexibility and control that shareholders have over where their money is invested.

Although in number they constitute a high percentage of UCIs, their assets have decreased in recent years, especially in domestic portfolios

NUMBER OF SICAVS AND EQUITY (AS A PERCENTAGE OF TOTAL UCIS)



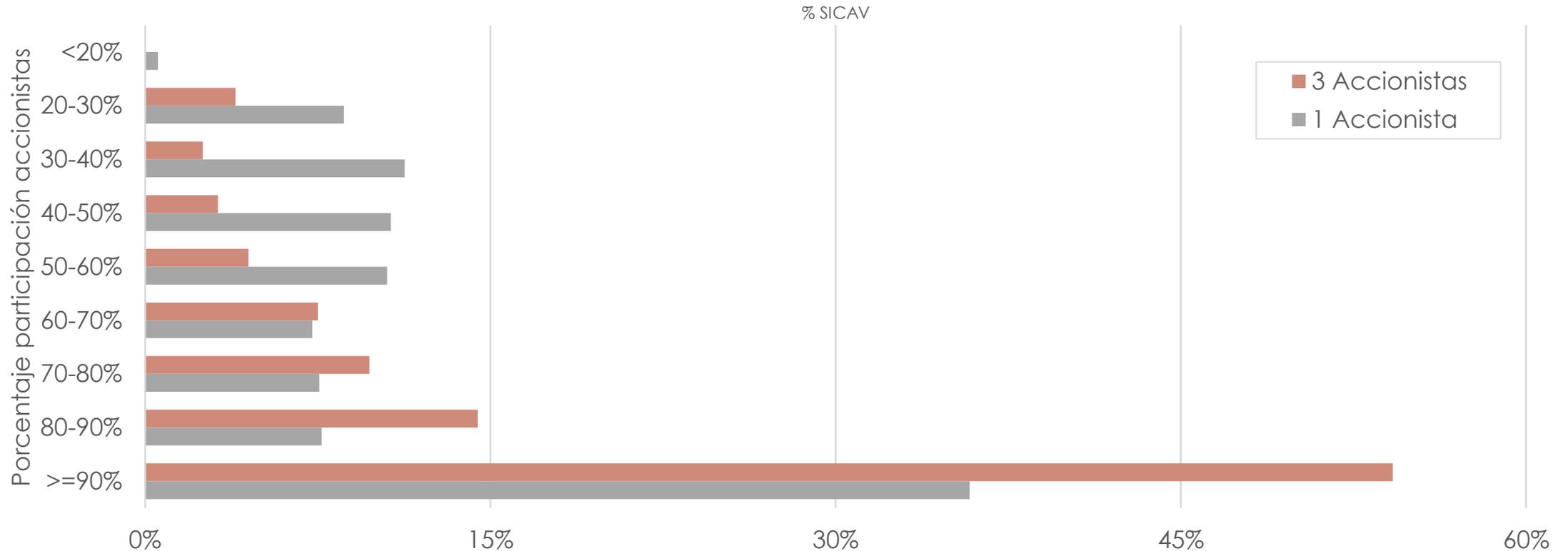
PERCENTAGE OF SICAV ASSETS AND INVESTMENT FUNDS IN DOMESTIC PORTFOLIOS



Source: Own calculations from 2008-2019 CNMV data

The evaluation identifies a high concentration of shares amongst a small number of shareholders, which casts doubt on compliance with the investment's collective nature

Percentage of SICAV shares held by the top shareholder and the top three



Source: Own calculations from data
Fuente: Elaboración Propia a partir de datos

Reduced CIT rates for SICAV

EVALUATION	OBJECTIVE	SICAV: Promote collective and diversified investment
	COMPLIANCE WITH OBJECTIVE	INCONCLUSIVE , despite the reinforced requirements existing in Spanish regulations (having a minimum number of one hundred shareholders), a high concentration of investment is detected in the hands of a limited number of shareholders that cast doubt over the investment's collective nature.
	PROPOSALS	SICAVs: Reinforce the requirements to improve effective compliance with the collective nature of the investment in the terms provided in our regulations (e.g., set a maximum limit for participation per shareholder).

Final conclusions and proposals

- Contextualise any changes to tax benefit within the **strategic planning of public policies and the administrations to which they are related, evaluating their exact effects and their ex post compliance**
- **Continue the last decade's reform of PIT Tax Benefits** focused on those incentives that do not comply with their objective (social security) as well as those that present some distortion or possible improvement in terms of efficiency (joint taxation, housing rental)
- **Initiate a revision, accompanied by the economic recovery, of reduced VAT rates** in order to improve distributive efficiency and focus on those goods that are primarily consumed by those with high incomes. At the same time, articulate expenditure policies aimed at vulnerable groups and strategic sectors that are intended to benefit from the tax benefit.
- **Strengthen the requirements to improve effective compliance with the regulations to use the reduced CIT tax rates in the terms provided for in Spanish regulations**



Reduction for earnings from work

	DEFINITION	Up to €5,565 for declarants with a professional income below €16,825
	COST (million €)	1,139 (€9,000M if the deductible expenditure of €2,000 is considered)
	INEQUALITY	Progressive
EVALUATION	OBJECTIVE	Promote the low income labour supply
	COMPLIANCE OBJECTIVE WITH	YES , mainly in the number of people (extensive margin)
	PROPOSALS	Harmonisation and coordination of all existing incentives that seek to promote the supply of work, avoiding overlaps and duplications and, in particular, with future incentives for the use of the Minimum Living Income (MLI)

Deduction for donations in PIT

	DEFINITION	75% of the donation for the first 150 euros and 30% for the rest
	COST (million €)	469
	INEQUALITY	Neutral
EVALUATION	OBJECTIVE	Promote the financing of the third sector
	COMPLIANCE OBJECTIVE WITH	INCONCLUSIVE , no direct causal relationship is identified between the tax benefit and the recent progress of donations, although analysis through surveys at the European level shows that the tax incentive is one of the five main factors that positively influence the decision to make donations.
	PROPOSALS	--

Social deductions (maternity, large family, disability)

	DEFINITION	Negative tax of up to €1200 for mothers with children under 3 years of age, large families and taxpaying families with dependent people with disabilities
	COST (million €)	1,708 (44% deduction for maternity, 36% deduction for a large family, and 20% deduction for dependent disabled people)
	INEQUALITY	Progressive
EVALUATION	OBJECTIVE	Promote births, the inclusion of people with disabilities and reduce the gender gap.
	COMPLIANCE OBJECTIVE WITH	YES , a positive, small and significant effect both on the birth rate and on the labour participation of women with children under 3 years of age
	PROPOSALS	--

VAT exemptions for health and education services

	DEFINITION	Possibility of not taxing education and private healthcare
	COST (million €)	3,457
	INEQUALITY	Neutral
EVALUATION	OBJECTIVE	Reduce prices to facilitate access to education and health, and decongest the public system.
	COMPLIANCE OBJECTIVE WITH	INCONCLUSIVE. If the exemption is lifted, the higher income obtained by the State as VAT could be offset by a higher cost of providing the service via the public system. Results subject to the heterogeneous range of elasticities that have been found in the estimation.
	PROPOSALS	--

VAT exemptions for financial services

	DEFINITION	Possibility of not taxing financial services
	COST (million €)	2,777
	INEQUALITY	--
EVALUATION	OBJECTIVE	Reduce the cost of financing homes and businesses
	COMPLIANCE OBJECTIVE WITH	YES , lifting the exemption would increase prices, as a consequence of the greater tax burden on financial products for households, without affecting companies as they could deduct the supported VAT.
	PROPOSALS	--

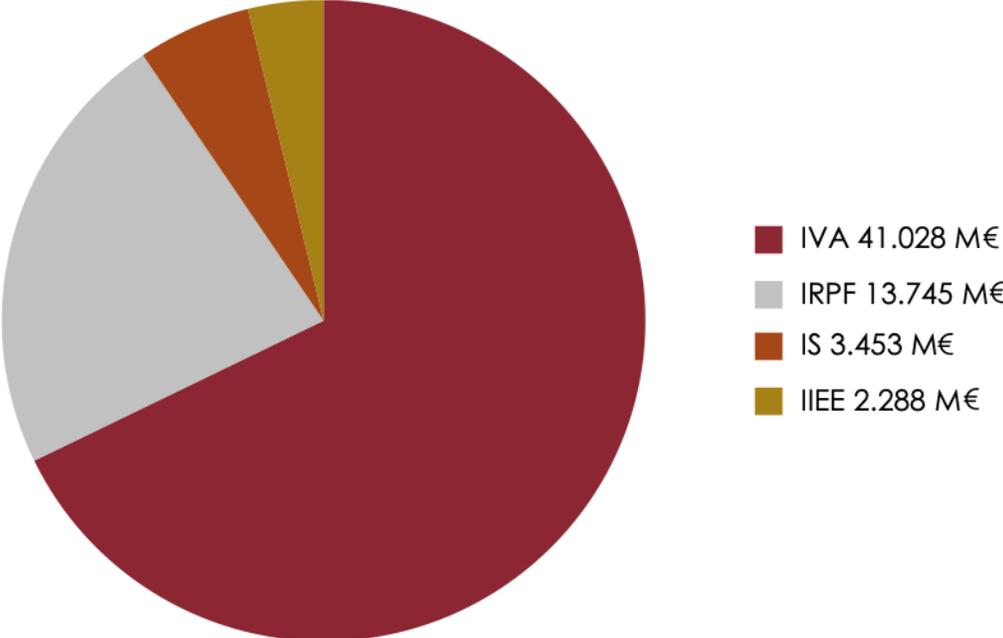
Tax difference in the ST between Diesel and Gasoline (non-professional use)

	DEFINITION	Difference of €93.69 per 1,000 litres in taxation in favour of diesel
	COST (million €)	1,162 (households only, non-professional use)
	INEQUALITY	Neutral
EVALUATION	OBJECTIVE	Favour diesel to reduce the cost of transport and for environmental reasons
	COMPLIANCE WITH OBJECTIVE	YES
	PROPOSALS	Update taxation in accordance with the new environmental policy objectives (e.g., set a price for the emissions of each Kg of CO ₂ and NO ₂)

Deduction for donations in CIT

	DEFINITION	35% of the donation with a limit
	COST (million €)	107
EVALUATION	OBJECTIVE	Promote the financing of the third sector
	COMPLIANCE OBJECTIVE WITH	INCONCLUSIVE , no direct causal relationship is identified between the tax benefit and the recent progress of donations, although analysis through surveys at the European level shows that the tax incentive is one of the five main factors that positively influence the decision to make donations.
	PROPOSALS	--

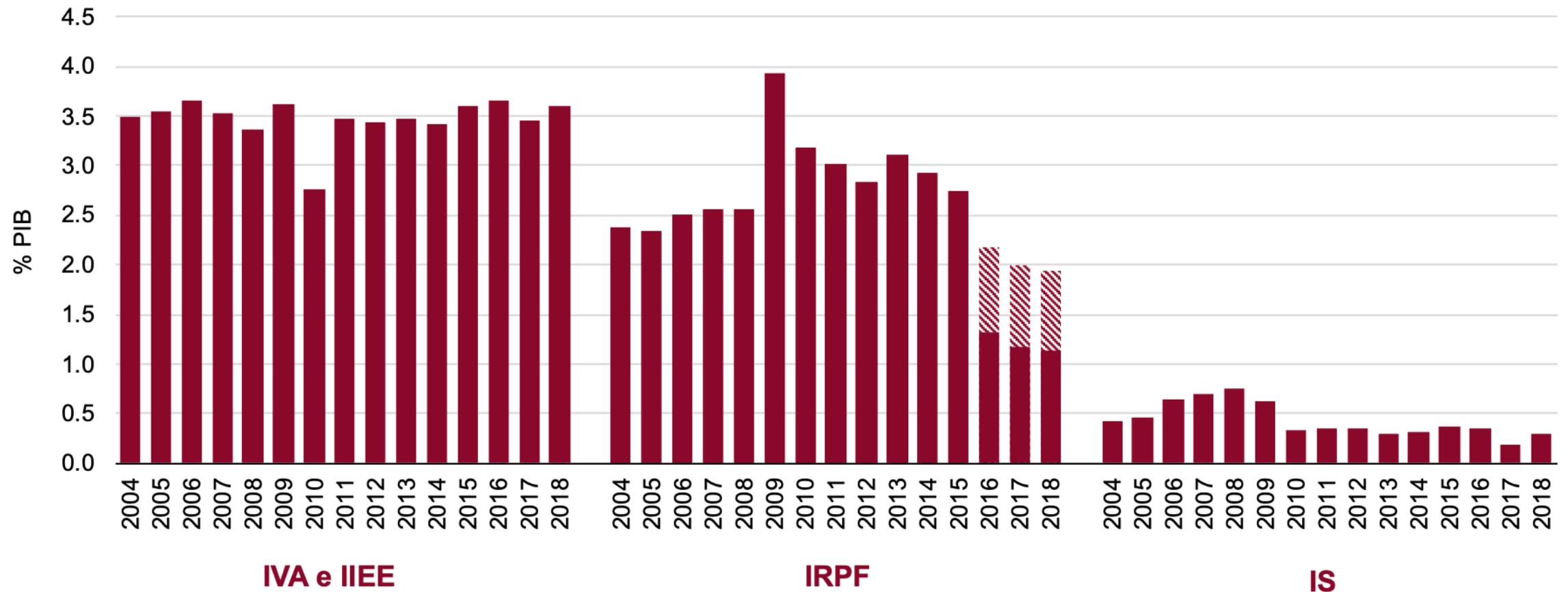
Distribution of the collective cost of all tax benefits by tax figures, 2018



Source: Own calculations from the Tax Benefits Report.



Historical evolution of tax benefits



Source: Own calculations from the Tax Benefits Report. The shaded area corresponds to the total cost of the €2,000 deductible from the net return on work that was no longer considered a tax benefit as of 2015

