FOURTH OPINION IN MINIMUM INCOME SCHEME (IMV)

Executive Summary

OPINION 3/25

Independent Authority *for* Fiscal Responsibility

The mission of the Independent Authority for Fiscal Responsibility, AAI (AIReF) is to ensure strict compliance with the principles of budgetary stability and financial sustainability enshrined in Article 135 of the Spanish Constitution.

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The IMV in figures (general tax regime)*

939,303 Households that could have received the IMV in 2024	392,444 Households receiving IMV as of December 2024	1,826,667 Households that could have received the CAPI in 2024	452,234 Households receiving the CAPI as of December 2024

55%	Of eligible households do not apply for the IMV
72%	Of eligible households do not apply for the CAPI
45	Fewer days for cases to be approved in 2024
44%	Requests for refunds due to termination or payment adjustments
60%	Of households receiving the IMV for more than three years
0.6 (11%)	Fewer days worked per month due to receiving the IMV
1.2 (26%)	Fewer days worked per month among those receiving the IMV with above-average wages
12%	Reduction in the probability of working due to receiving the IMV
23%	Lower probability of working among those receiving the IMV with above-average wages
3%	Increase in the probability of having a permanent contract due to receiving the IMV

* The income and wealth information from the State Tax Administration Agency (AEAT), which is used to manage the IMV for residents in the Autonomous Regions under the general regime and which has been used to carry out this evaluation, does not include data on potential beneficiaries in the chartered regions (Basque Country and Navarre). The chartered regions have not provided the information for this evaluation; accordingly, all figures in this Opinion exclude these autonomous regions.

EXECUTIVE SUMMARY

This is the Fourth Opinion issued by the Independent Authority for Fiscal Responsibility (AIReF) pursuant to Article 31(3) of Law 19/2021, of December 20th, establishing the Minimum Income Scheme (IMV). The IMV is a means-tested benefit designed to mitigate the risk of poverty among individuals who lack the basic economic resources to meet their fundamental needs.

More than four years after its introduction, this Fourth AIReF Opinion evaluates, for the first time, the effects of the IMV on the employment of beneficiaries, using econometric methodologies to estimate the causal impact of this benefit on labour decisions. From an economic theory perspective, last-resort benefits such as the IMV influence the reservation wage of beneficiaries — defined as the minimum wage at which a worker would be willing to accept a job — which can lead to a decrease in labour supply by increasing the value of alternatives to paid work. However, this effect must be contextualised by considering the additional labour and non-labour contributions that these benefits can provide, such as facilitating the rejection of precarious employment, allowing more selective job searches that lead to better worker-job matches, providing stability that can improve subsequent labour performance, and offering opportunities for professional retraining.

The econometric evaluation reveals statistically significant effects of the IMV on the labour participation of beneficiaries. The results indicate that the benefit reduces the number of days worked by 0.6 days per month (11% compared with the previous average) and reduces the probability of working by 3 percentage points (p.p.) (a 12% drop). These adverse effects on labour participation are even sustained in cohorts that began receiving the IMV after the in-work benefit came into effect in January 2023, demonstrating the persistence of the disincentive impact and the reduced effectiveness of this mechanism. The heterogeneity analysis reveals that the effects are more pronounced among those aged under 30, those in single-parent households and those receiving above-average benefits, discouraging labour participation by more than 20%. The estimate of the effects of leaving the IMV confirms the causal relationship

identified: ceasing to receive benefits increases the number of days worked by 0.5 per month and the probability of working by 2.2 p.p. (7% compared with the situation in the last few months of receiving the IMV). In terms of job quality, among beneficiaries who remain employed, changes in job characteristics suggest an improvement in quality, with a 3% increase in the probability of obtaining a permanent contract.

This analysis of the effects on employment is complemented by a box studying the duration of the benefit: 90% of beneficiaries remain on the benefit for more than 12 months, 75% for more than 24 months, and approximately 60% for more than three years. This duration, along with the employment effects identified, raises questions about the effectiveness of the transition-to-employment mechanisms currently included in the benefit.

The specific evaluation of the current in-work benefit's effectiveness reveals that it has not mitigated the disincentive effects identified in the first 12 months since its introduction, resulting in no significant impact on either labour intensity or participation rates. This result is mainly attributed to a design which, based on income increases in previous years, does not provide clear immediate incentives for current labour decisions. The current mechanism has design flaws that limit its effectiveness: it uses tax information with a time lag, preventing beneficiaries from perceiving the advantages of the incentive instantly. Furthermore, it clearly lacks elements that encourage rapid entry into employment or regarding the intensity of the working day, and it does not offer a guaranteed duration, providing beneficiaries with certainty about the time period for receiving the benefit. These findings justify the proposal to reformulate the mechanism completely.

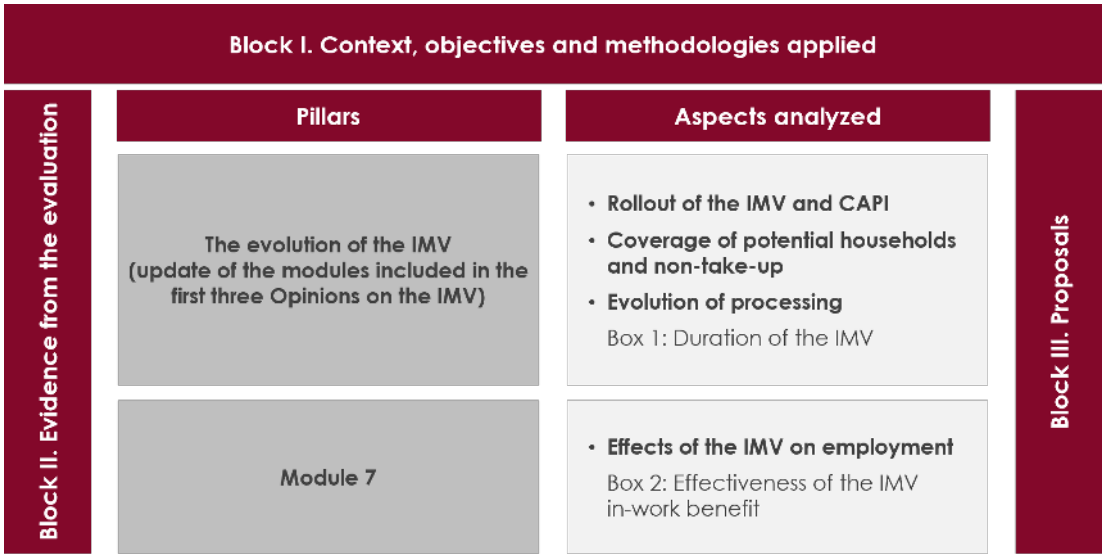
The rest of the Opinion updates the IMV results shown in previous Opinion modules. In terms of rollout and scope, the IMV shows progress in 2024, such as a 14% increase in the number of beneficiaries, a 34% increase in the Child Support Supplement (CAPI) and a reduction of 45 days in the average processing time to 203 days. However, this progress coexists with results indicating that the IMV has not undergone any significant structural changes since AIReF's first Opinions, retaining a design that has had limitations in achieving its goals since its introduction.

The limited progress of the IMV is evident in key indicators that remain unchanged: non-take-up rates similar to those of previous years (55% for the IMV and 72% for the CAPI); limited coverage; continued administrative complexity, with 68% of households experiencing changes due to income revisions; and

sustained regional differences in Catalonia and the Balearic Islands, with non-take-up rates above 65%, which show the lack of coordination between the IMV and the regional minimum incomes of the autonomous regions.

In view of the diagnosis, AIReF presents five proposals, some new and others already formulated in previous years but not yet taken into consideration. First, it proposes a complete reformulation of the in-work benefit with a new design that is visible to potential beneficiaries, transparent in its duration, and scalable according to the time of entry into employment and the intensity of the working day. Second, it proposes implementing automatic verification formulas for essential requirements to overcome current administrative barriers, such as the systematic use of monthly or quarterly administrative information for income verification. In this regard, particular emphasis is placed on further automating the process so that the CAPI reaches potential households from the time the child is registered at birth. All of this would reduce the high non-take-up rates of the CAPI, increase responsiveness to unforeseen situations of poverty, and significantly reduce requests for reimbursement due to undue payments. The third proposal aims to transform the general objectives of the IMV into quantifiable and measurable goals. The fourth area of reform focuses on strengthening individualised support programmes. These initiatives are a fundamental tool, as highlighted by the pilot projects promoted by the Ministry of Inclusion, Social Security and Migration (MISSM) within the Inclusion Policy Laboratory. Finally, the fifth proposal aims to ensure the continuity of homogeneous and comparable statistics on regional minimum incomes developed by AIReF, which, for the first time in its Third Opinion, provided monthly, homogeneous and comparable information on all minimum income benefits in Spain.

OUTLINE OF AIREF'S FOURTH OPINION ON THE IMV



Source: AIReF

FINDINGS AND PROPOSALS

1. THE EVOLUTION OF THE BENEFIT

The rollout of the IMV and CAPI in 2024

FINDINGS	• At December 31st, 2024, 392,444 households under the general tax regime receive the IMV (basic IMV + full IMV) (year-on-year increase of 14%). • At December 31st, 2024, 452,234 households under the general tax regime receive the CAPI (IMV-CAPI) (a year-on-year increase of 34%). • In 2024, the in-work benefit reaches 30% of households receiving the IMV, a figure equivalent to 2023. • In line with the level of the Third Opinion, 68% of households receiving the IMV in 2024 see changes in their payments due to the income revision.

Notes:

Basic IMV refers to the benefit calculated as the difference between the guaranteed income threshold and the household's actual income. Households with no children and income below the guaranteed income threshold receive this variant of the benefit.

Full IMV (basic IMV + CAPI) refers to a variant of the benefit in which both the basic IMV and the CAPI are received. Households with children and income below the guaranteed income receive this variant of the benefit.

IMV-CAPI: a variant of the benefit in which only the CAPI is received. This benefit is received by households whose income exceeds the guaranteed income (but does not exceed the CAPI thresholds) and hence do not receive the benefit for the difference to the threshold, but do receive the CAPI.

Potential household cover and non-take-up

FINDINGS	• In 2024, the IMV and CAPI reach 42% and 23% of potential households, respectively. • 55% of households eligible for the IMV and 72% of households eligible for the CAPI do not apply for the benefit in 2024 (non-take-up). • The Balearic Islands and Catalonia continue to have IMV non-take-up rates above the national average. • By household type, single-parent households have the lowest non-take-up rates for both the IMV and the CAPI. • In 2024, the IMV reaches 53% of its potential cost and the CAPI 29%.

PROPOSALS	• Specify the IMV objectives in quantitative terms. • Strengthen information campaigns and individualised support to reduce non-take-up and improve the inclusion of beneficiaries. • Continue to provide homogeneous and comparable statistics on beneficiaries and monthly amounts of regional minimum incomes, as provided by AIReF in its Third Opinion.

The evolution of processing

FINDINGS	• The number of IMV applications in 2024 was 7% lower than in 2023. • Of the total number of applications submitted during the year, 25% were still being processed at the end of 2024, compared with 49% a year earlier. • The average processing time for applications approved in 2024 was 203 days, 45 days less than in 2023. • In 2024, the main reason for the rejection of applications was due to causes related to civil registration or cohabitation, while the leading cause of inadmissibility was failure to meet income criteria.
PROPOSALS	• Promote automatic verification of the requirements to receive benefits. For the CAPI, move towards greater automation in granting benefits based on civil registration information.

Box 1. The duration of IMV beneficiaries

FINDINGS	• Households tend to remain on the IMV once they start receiving it: almost 90% of households receive the benefit for more than 12 months, 75% for more than 24 months and around 60% for more than three years. • The longer a household has been receiving the IMV, the less likely it is to stop receiving it. • The longer people remain on the IMV, the more likely they are to have previously received some form of regional minimum income, not to have had a job in the six months before receiving the benefit, to receive higher IMV payments and to be the only adult in the household.
PROPOSALS	• Strengthen information campaigns and individualised support to reduce non-take-up and improve the inclusion of beneficiaries.

2. MODULE 7: THE EFFECTS OF THE IMV ON EMPLOYMENT

Evaluation of the impact of starting to receive the IMV

FINDINGS	• The IMV reduces the number of days worked by 0.6 per month, 11% compared with the average number of days worked before receiving the benefit. This effect is also observed in cohorts that began receiving the IMV after the in-work benefit came into effect. • The IMV reduces the probability of working by 3 p.p., 12% compared with the average percentage of beneficiaries with a job before receiving the IMV. This effect is also observed in cohorts that began receiving the IMV after thein-work benefit came into effect. • Among beneficiaries who are employed, the IMV increases the probability of having a permanent contract by 1.2 p.p., 3% above the average percentage of permanent contracts before receiving the benefit. • The heterogeneity analysis reveals that the introduction of the IMV causes disincentives to employment of more than 20% in some groups: beneficiaries with higher income, those under 30 years of age and single-parent households.
PROPOSALS	• Complete reformulation of the design of the IMV in-work benefit.

Evaluation of the impact of leaving the IMV

FINDINGS	• Leaving the IMV increases the number of days worked by 0.5 per month and the probability of working by 2.2 p.p., 7% compared with the situation in the last few months of receiving the IMV. • The heterogeneity analysis reveals that leaving the IMV has a greater effect on employment for female beneficiaries and those under 30 years of age.
PROPOSALS	• Complete reformulation of the design of the IMV in-work benefit.

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