Agencia Tributaria

TAX REVENUE ANNUAL REPORT

2019

TAX REVENUE IN 2019

In 2019, Total Tax Revenue accounted to €213 billion, raising up by 2%. Among other factors, the main feature to look out for is the impact of legal and managing changes, which subtracted nearly €3,800 million to the collection (closely 70% was related to extraordinary refunds not linked to bases and taxes evolution). **Amending this effect, revenue would have gained 3.8%**, four tenths above domestic demand pace (3.4%) and nearby the tax bases growth estimate in 2019 (4%).

Economic climate drew a downward profile in 2019. Real economic data (GDP, jobs creation) did show a lessening trend throughout the year. The same course was seen in the variables built up as of the fiscal info (total deflated sales and number of wage earners in Large Companies and corporate Small Businesses), though in this case the slowdown was holding back in the central months of the year. At the same time, consumer prices grew below 2018 pace, with an underlying inflation slightly increasing in the last months, but without exceeding 1%, in any case. This same declining trend was reflected by tax revenue evolution and it was only altered by the collection of 2018 annual returns positive outcome at mid-year. The gradual lessening deepened by the step-effect caused by 2018 Budget pass, as it included the rise of public salaries and pensions, which led to a high growth of revenue in the first part of 2019 and a more sluggish increase in the second half of the year.

Provided these circumstances, collection growth was mainly focused on revenue coming from payroll withholdings and gross VAT, to whom the good performance of the 2018 annual returns positive outcome was added, particularly as far as the Personal Income Tax is concerned.

The economic climate

Real GDP scaled by 2% in 2019, compared to 2.4% recorded in 2018. If year-to-year rates are considered it can be seen an ongoing lessening trend throughout the year, dragging on, with occasional fluctuations, the slowing down path performed by economy in 2018. Total employment shape is more sharpened and some more uneven as a result of the evolution shown in 2018. Anyways, measured in full-time equivalent figures, the number of total employees did lessen slightly too, going from a 2.5% growth in 2018 to a 2.3% advance in 2019, 3% and 2.7% if referred to salaried persons. Moderation in households' consumption and the low increase of investment mostly explain the slowing down of economic activity. Yet, external demand did better and added half a point to overall growth.

The same track was followed by the variables built up as of the fiscal info, though in this case the slowdown was holding back temporarily in the central months of the year. **Non-financial large corporations' sales**, seasonal adjusted and with deflated figures, ended the year with a 1.8% expansion, below 3% in 2018. The year started with high paces, alike to those scored at the end of 2018, but from May on the growth did loose strength giving way to a period of some steadiness, which was broken in the last quarter with a more noticeable restraint. The same profile was shown by domestic sales, while export sales performed better around mid-year, though they lessened in the last months too. An alike trend can be seen if corporate small businesses are included in the analysis. Thus, the increase of **non-financial large and small corporations' sales**, seasonal adjusted and with deflated figures, was 2.6% estimate in 2019, nearly two points below 2018.

On its side, the **number of wage earners**, variable included in withholdings self-assessments that approaches salaried employment evolution, grew by 2.6% in large corporations, at constant population, and by 3% in the large and small corporations taken as a whole, both of them below the paces recorded in 2018 (3.1% and 4.4% each). Social Security enrollees, other indicator from fiscal sources, did also enlarged softer than in the previous year (2.6%, compared to 3.1% in 2018).

Regarding **prices**, those closely linked to consumption expenditure, which are the ones that most exert influence on tax revenue evolution, rose in 2019 slightly under the pace recorded in the prior year. This can be verified both in the deflator of households' final consumption expenditure, released by the National Accounts, that went up by 1.2%, compared to 1.5% in 2018, and even more markedly in the consumer price index (IPC, in Spanish), which increased by 0.7% in 2019, after a 1.7% rate in 2018. As in the preceding years, the performance was highly conditioned by the energy component, which went downwards in the second part of the year. The underlying IPC which, by eliminating unprocessed food and energy products, tries to reflect the trend in prices, showed, on the other hand, a slightly increasing profile in 2019, although reaching only 1% at the end of the year, which is the escalation that this index already had in the second half of 2018.

Economy and prices evolution, both showing a slowing down trend through 2019, drove the **nominal domestic demand** (the macroeconomic aggregate most closely related to tax revenue) to a downward profile too and similar, besides, to the sales shape: high growth in the early part of the year, softer in the central months and a further slowdown in the final quarter. The year ended with a 3.4% growth, 4.2% in 2018. The other remarkable aggregate in order to follow revenue evolution, the **employees' compensation**, was the only variable with a more expansive performance than in previous years (4.7% in 2019; 4% in 2018) thanks to wages increases.

Tax Bases

Main Tax Bases rose by 4% in 2019, nearly two points less than in 2018 (5.8%). For the first time since 2014, the annual growth is below the one recorded in the preceding year. The increment is alike to that of the sum of domestic demand plus employees' compensation, which are the two main benchmark macroeconomic indicators.

The lessening was noticed in the bases linked to **income** as much as in those related to **spending**, though with more strength in the latter. The first set of them increased by 4.6% in 2019, one point and a half below the pace of 2018 estimate. The growth was 3% for the bases related to spending, also under the prior 5.3% rate.

The lessening path and the evolution across the year were conditioned by the four following facts. Firstly, the different performance of households' income in the initial and in the second part of the year due to the step in the growth pace that took place since mid-2018, after the public salaries and pensions rises passed with 2018 Budget, in July. Secondly, the drop of Corporation Tax base in the third quarter because of its comparison with an exceptionally high increment in the same period of 2018. In the third place, the gradual lessening of the domestic demand, which affected the growth of spending subject to VAT. Lastly, the decrease of energy prices in the second half of the year, with the consequent effect in the value of consumptions subject to Excise Taxes. These four issues altogether made the growth higher in the first part than in the second half of the year, though the biggest differences were actually placed on the third quarter of 2019.

Households' income enlarged by 5.3% in 2019 (6% in 2018). As reported before, income performance was quite different in the first part of the year, compared to the second half, as a result of the impact of the public salaries and pensions rises included in 2018 Budget, in force since July, to whom new rises in 2019 have to be added. The growth recorded in the last part of 2019 did not reach the level scored before the step effect because this impact hid away the slowing down that was taking place in the private sector because of the softer pace of jobs creation. The final outcome was an advance in 2019, of salaries and pensions as a whole, slightly under the one scored in 2018 (5.1%, compared to previous 5.3%).

On its side, capital income (savings yields, dividends, leases and capital gains) enlarged by 7.1% in 2019. This pace is half the one recorded in 2018 (14.5%), though this latter shown a peculiar performance driven by the bringing forward of some operations, previously to the publicised tax rates rise in 2019, which meant a savings income and capital gains boost. The same phenomenon took place in 2019, but it was not intense enough to change the overall outcome of the year. Anyhow, this growth is added to the high rates recorded in the three previous years.

Relating to corporations' income, **Corporation Tax consolidated base** rose by 0.5% estimate in 2019. Profit would have grown by 2.3%. In both cases, the outcome is worse than in 2018 (6.1% and 9% each). In the same way, the profit data obtained from the self-assessments submitted in 2019 by Large Corporations and Groups did show a decline, especially focused on Groups (five of them, which had an exceptionally good outcome in 2018, explain the whole drop), while Large Corporations' profit developed about 1%.

Concerning the bases linked to expenditure, **spending subject to VAT**, progressed by 3.4% in 2019, more than one point and a half under the pace achieved in 2018. The downtrend was a result of the economy general lessening as much as a consequence of the moderated prices increment. Every spending constituent (households', public administrations', housing') followed the same path, though it was sharper in new housing spending.

Lastly, the **value of consumptions subject to Excise Taxes** grew only by 0.6% in 2019 (7.2% in 2018). As usually, the drastic changes recorded by this series are driven by the moving evolution of energy prices, particularly those related to gasolines and diesel oils. These prices went up by 1.2% in 2019, with the whole growth concentrated in the first half of the year (they fell by 1% in the second semester); yet, in 2018, they enhanced by more than 9%. Nevertheless, if physical consumptions are taken into account, the outcome is not much better at all. In the main items, consumptions advanced very little or just dipped: gasolines and diesel oils consumptions enlarged by 0.5% (nearly two points less than in 2018), electricity consumption dropped by 1.8% and tax depots exits of cigarettes boxes fell by 1.9%. Only alcohol consumption subject to Excise Taxes raised compared to 2018 (1.7% the alcohol and derivative beverages and 2.3% the beer) and at a faster pace than then.

Effective tax rates

The average effective tax rate on income and expenditure in 2019 was 15.2%, slightly higher than in 2018. After 2014, when the peak was reached, the average rate decreased in 2015 and 2016 due to the direct taxes reform and from then on it has been increasing every year, but quiet moderately.

The slight upward trend is the result of a continued growth in the average effective rate borne by gross households' income. In 2019, it stood at 12.8%, still not reaching its peak (13%), also in 2014. The growth in the rate (0.7%) was due to the increase in income not subject to withholdings or payments on account; in fact, if the annual return is not included, the rate decreased by 0.2%. This fall is consistent with the higher growth in pensions (with a low average withholdings rate) and with the slight increase in the effective salaries rate (0.1% in 2019 compared to 1.1% in 2018), despite the wage increases. In the latter, the almost zero growth had to do with two factors. On the one hand, in the first half of the year there was still an impact of the reduction of withholdings on the lowest salaries (through the widening of the relief for employees compensations in 2018 Budget, a legal measure that particularly affected small businesses). On the other hand was the greater growth of those salaries (linked to the increase in the official minimum wage) that also have null or very small withholdings. These same two elements (the new relief and the higher growth of the lowest pensions) explain why the effective rate of pensions rose by only 1.6% (1.5% in 2018) compared with increases of around 3% in years with pensions revisions close to zero and regulatory stability.

The effective corporate tax rate was in 2019 either 20.6% estimate, if calculated on the aggregate taxable base or 9.2%, if worked out on the positive accounting profit. In the absence of regulatory changes, as it was the case in 2019, variations in the rate are exclusively due to the composition (the effect of the different profit and bases paces in companies with different effective rates). This effect explains the gently declining trend in the effective rate on profits since 2012.

The only change in VAT in 2019 was a reduction from the general rate to the reduced rate for movies, in force since July 2018, without a significant effect on the tax as a whole. Thus, the average effective rate was around 15.3%, which is in tune with the mean scored since 2016.

The average effective Excise taxes rate rose by almost the same percentage as it declined in 2018. It should be noted that, in order to complete the aggregate analysis of bases, rate and revenue, a value must be worked out for consumption subject to these taxes, although in several of these items the base is the physical consumption and not the value. Hence the large fluctuations in the rate from one year to the next, caused, as noted when discussing the bases, by the sometimes drastic variations in energy prices. Provided this background and being the rates calculated dividing the accrued revenue by the value of consumptions (not with the general rate on physical consumptions as it is done, for fuels, in the Excise Taxes section), the most remarkable increase in 2019 was that seen in the Fuel tax rate due to the inclusion of the regional fare into the national special fare of the tax. This change was passed with 2018 Budget, but its entry into force was delayed until 1 January 2019. The main effect of this measure was a change in the way in which the tax was paid. Previously it appeared directly in the accounts of the Autonomous Communities, but from 2019 on, it first is part of the State's accounts and then transferred together with the rest of the tax share (more details of this change can be found in Information Note 5 of 2018 Annual Report). Moreover, in the process of harmonizing the fare for all the Autonomous Communities, the change also meant an increase in the rate. Other changes, such as the exemptions for natural gas, gas oil and fuel oil used in electricity generation included in RDL 15/2018 had little effect on the average rate.

Accrued Tax Revenue and Net Total Tax Revenue

Accrued Taxes rose by 4.5% in 2019 (5.8% in 2018), the total figure as well as the main taxes. This pace means a deceleration, compared to 2018, as a result, as mentioned before, of the lessening growth of tax bases. Total tax revenue grew only by 2%. The difference stems mainly from the payment in 2019 of extraordinary refunds, above €2.3 billion, which were not linked to the evolution of bases and taxes.

Accrued **Personal Income Tax** scaled by 6.1% in 2019, one point less (5.1%) if annual return and family deductions were removed. The growth pace is higher than that of the bases due to the increment of the average effective tax rate, which as explained before, is tied in with the enlargement of those incomes not subject to withholdings.

Payroll withholdings, which are the main constituent of the tax, went up by 5.4%, 1.2 percentage points less than in 2018. Salaries withholdings advanced by 5.1%, while pensions withholdings did by 7%. Slowing down trend was more marked in salaries withholdings (they increased by 6.6% in 2018) because of the private sector performance, with a softer pace in jobs creation. For the public salaries and pensions the growth was higher, instead, than in 2018. In the former, withholdings were enhanced by both salaries rises and the consequent higher average effective rates, with the outcome of a 7.6% increment of the accrued tax, compared to 5% in the previous year. Regarding the latter, the situation was alike to 2018's (with similar growth in average pension and effective tax rate), though the final outcome was a slightly higher growth (withholdings incremented by 6.5% in 2018).

Personal Income Tax revenue amounted to €86.9 billion in 2019, 4.9% above 2018 collection. The lesser growth of PIT revenue, compared to the accrued tax, was driven by the payment of refunds caused by High Court ruling 1462/2018, dated on October 3, 2018, which stated the exemption of income perceived by taxpayers as parental allowances. This ruling meant the rebate of the tax paid in non-expired fiscal years. Refunds from years 2014 to 2017 began to be paid in December 2018 and dragged on 2019, in spite they have not anything to do with the income generated and the tax accrued in those two years. If the amount rebated in 2019 (€1,046 million) were added to revenue, PIT would have scaled by 6.1%, the same pace recorded by the accrued tax.

Accrued **Corporation Tax** expanded by 0.8% in 2019. Leaving aside the annual return estimate in 2019 (the actual figure will be known in the second half of the current year), CT dipped by 5.2%. The difference between both rates is due to instalments evolution, the main constituent of the tax, which plunged by 6.7%. As reported before, this decline was driven by the high amount collected for instalments in 2018, thanks to the performance of five big Groups.

Corporation Tax total revenue reached the level of €23.7 billion in 2019, 4.4% below the figure of 2018. As it happened in PIT, extraordinary refunds were paid in 2019, more than €1,200 million in this case, derived either from Court rulings, or from payments related to deferred tax assets (known as DTA) and both lacking, therefore, of any connection with the determining factors of collection evolution. Without them, CT revenue would have gone up by 0.4%, rate that is more in tune with accrued revenue performance.

Leaving aside these unusual refunds, CT cash revenue was determined in 2019 by the afore mentioned instalments shrinking and two other features that came to counterbalance that fall: the positive outcome of the annual return (belonging to 2018, which boosted by 10%) and by the lower amount of campaign refunds paid (€544 million less, -6%).

In 2019, accrued **VAT** advanced at the same pace than Spending subject to VAT, 3.4%. As mentioned before, law changes were minimal and their effect was not significant in the tax effective rate.

VAT net cash revenue collection was of €71.5 billion, 1.9% above 2018 result. Gross VAT scaled by 3.6%, but the thrust on net revenue was straitened by the refunds expansion (8.2%), which can be explained by the strong increments of monthly refunds claimed by taxpayers in the first months of the year and by the higher refunds payment pace, compared to the prior year.

Accrued **Excise Taxes** enlarged by 5.5% in 2019 (1.9% in 2018), but the whole increment was the result of the inclusion of the previous regional fare into the Fuel Tax special fare. Without this change in the way of paying this part of the tax and leaving also apart the impact of RDL 15/2018 (which declared exempted the consumptions of natural gas, diesel oil and fuel oil when used in the production of electric energy), accrued Excise Taxes would have decreased by 1%. Fuel Tax grew by 12.5%, but after amending the effects of law and management changes would have risen scarcely by 0.3%. The meagre growth of the main consumptions (gasolines and diesel oils) has already been remarked, but the fall of gas natural consumptions (leaving aside the mentioned RDL 15/2018 impact) has to be added. Accrued Tobacco Excise Tax tumbled by 1.4%, compared to 2.4% rise in 2018. Total consumptions fell down by 1% (cigarettes boxes drop was sharper, as commented before, but the dip was partially balanced by the rest of the products). Accrued Electricity Tax remained steady (+0.1%, compared to 2018) thanks to the lower reductions to big consumers, that counterbalanced both the slight prices hike and the consumption dip. Accrued taxes on alcohol increased by 2% and more strongly in Beer Tax than in Alcohol and derivative beverages. The worst performance was seen in Coal Tax, which sank by 68% in 2019. The direct cause was the entering into force of RDL 15/ 2018, which, by doing more attractive the use of natural gas to produce electricity, struck very adversely on coal consumption for such purpose. In the medium and long term, the decision of big producers about this raw material withdrawal, as an energy source, will make residual the revenue from this tax.

In 2018, cash net Excise Taxes collection went up to €21.4 billion, picking up by 4.1%. If law and management changes effects were amended, Excise Taxes revenue would have dropped by 0.8%, pace alike to that recorded by the accrued revenue.

The rest of the tax items, other than the four main, collected €9.3 billion, nearly 10% below 2018 (€-1,019 million). The fall can be explained by the evolution of the following taxes: **environmental taxes** and **Non-Residents Income Tax**. In the first case, most of the setback (€-852 million) was due to the temporary removal of the Tax on the Value of Electric Energy Production during two quarters (fourth quarter 2018 and first quarter 2019), a legal change included in RDL 15/2018. In the second one, the fall was linked to the high revenue collected from the annual return in 2018. Losses were also scored in **Other revenue from Chapter I** (€-161 million, mostly due to extraordinary refunds from the Inheritance and Gift Tax, resulting from Court rulings), in **Other revenue from Chapter III** (€-149 million) and in the **Tax on Fluorinated Greenhouse Gases** (€-29 million, almost all of them due to the rates lowering that entered into force in September 2018). Conversely, there was a significant increase in **Fees** (50.1%, €341 million), thanks to the Canon on the use of inland waters for the production of electric energy (which had had a low yield in 2018 due to the drought in 2017; the canon is collected in the following year) and to the Radio Electric Domain Use and Telecommunications Levies (the first for an extraordinary receipt and the second for the delay in paying refunds).

Tax Revenue and its comparison to Budget

In 2019 there was no Budget, so the Budget rules in force were those passed for 2018. Since the comparison of 2019 revenue with Budget forecast for 2018 does not make any economic sense, no additional comment is made here. Yet, the tables of Budget estimates (Table 7.9) and deviations (Table 1.7) are kept with the published series since 1995.