Agencia Tributaria

Statistic of Personal Income Tax Annual Return Submitters by municipalities

Explanation Note:
Gross Income and Disposable Income

Subdirectorate General for Statistics

Agencia Tributaria

EXPLANATION NOTE: GROSS INCOME AND DISPOSABLE INCOME

CHANGES IN THE DEFINITIONS OF GROSS/DISPOSABLE INCOME INSIDE THE PIT STATISTIC BY MUNICIPALITIES

The publishing of the new release of the Statistic of Personal Income Tax annual return submitters by municipalities has revealed that the existence of some items with negative income can bias significantly the working out of gross/disposable income by towns.
Given that the target is to obtain an income figure as an approach to the purchasing power of submitters to meet consumption and investment spending, it is not suitable to include negative income (of a high level in some cases) which could bias downward the average income of the town considered. In turn, from a statistical point of view, the negative figures pose troubles in the calculation of the different inequality indices that are usual in analyses over redeployment issues.

Personal Income Tax Statistics by Municipalities integrate in the definition of gross income per submitter only those positive items included in his/her return. This enclose the purpose of avoiding the impact on results of the handling in the tax of the different classes of income and of being able, at the same time, to arrange a magnitude of gross income accurately tied in with the right period of income generation. In other words, no constituent is included if it is negative and negative income is only comprised if compensating with positive items of the same nature gives finally a positive outcome (example: if a taxpayer declares losses on a business activity in direct assessment scheme, they may be compensated with profit declared in other activities of the same regime).

Specifically, the changes affecting the assessment of income constituents and of gross/disposable income itself are:

- Each income constituent is limited in the base to zero.
- The same is done with the disposable income subject to tax (it comes to zero when a negative value is obtained after subtracting the tax liability and the social contributions).
- The offsetting of capital losses from previous fiscal years does not lessen the net capital gains of the year considered.
- Inside the item ‘Other income’ the income allocation for housing different from usual residence has been removed.

The reason for these changes is the attempt to suit the international definitions of households’ income, whose main object is to achieve an approach to the purchasing power of submitters related to meet consumption and investment spending.
In the case of statistics based upon fiscal information, the attainment of this target is limited by the way in which the information is taken, i.e. through tax return forms whose purpose is not to provide statistical but tax management information.

In this sense, the mentioned change about income allocation for housing different from usual residence can be explained because such allocations takes part of the taxable base, but no ways can be considered as a disposable household’s income, ready to be used for consumption or investment spending. Something similar can be said about the offsetting of capital losses from previous fiscal years with current capital gains, because only the latter are disposable households’ income.

Other issue is the change carried on when existing negative figures. These negative values make fiscal sense and tax laws provides rules for their inclusion or offsetting with positive income in future fiscal years which are different depending on whether they are part of the general or savings taxable base. Such rules are needed in order to define the tax base and adjust the tax burden, but they distort the economic notion of households' income understood as the financial source of their current expenditure. Besides, most of the negative income refers to personal businesses losses, in direct assessment scheme, and to negative figures from entities under income allocation regime.

Therefore, so as to the results were not affected by the fiscal fit of the different PIT negative income, as well as in order to arrange a magnitude of gross income tied in precisely with the right period of income generation, PIT Statistic by Municipalities includes, inside the definition of gross income per submitter, only those positive items reported in his/her return. No negative income constituent is thus considered.

These changes are intended to improve the quality standard of gross/disposable income measure by municipalities, since the distortions produced by the unusual negative items reported are avoided and, at the same time, the time homogeneity of estimates becomes better.