

Spain

Spain		2004			
The tax/benefit position of single persons					
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		11942	17913	29855	11942
2. Standard tax allowances:					
Basic allowance		3400	3400	3400	5550
Married or head of family					
Dependent children		0	0	0	2900
Deduction for social security contributions and income taxes		758	1137	1896	758
Work-related expenses		2816	2400	2400	2816
Other					
	Total	6975	6937	7696	11942
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		4967	10976	22159	0
5. Central government income tax liability (exclusive of tax credits)		832	2274	5293	0
6. Tax credits					
Basic credit		0	0	0	0
Married or head of family					
Children					
Other					
	Total	0	0	0	0
7. Central government income tax finally paid (5-6)		516	1467	3476	0
8. State and local taxes		317	807	1816	0
9. Employees' compulsory social security contributions					
Gross earnings		758	1137	1896	758
Taxable income					
	Total	758	1137	1896	758
10. Total payments to general government (7 + 8 + 9)		1590	3412	7188	758
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	0
	Total	0	0	0	0
12. Take-home pay (1-10+11)		10352	14501	22667	11184
13. Employer's compulsory social security contributions		3654	5481	9136	3654
14. Average rates					
Income tax		7.0%	12.7%	17.7%	0.0%
Employees' social security contributions		6.4%	6.4%	6.4%	6.4%
Total payments less cash transfers		13.3%	19.0%	24.1%	6.3%
Total tax wedge including employer's social security contributions		33.6%	38.0%	41.9%	28.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		34.0%	28.8%	32.6%	6.3%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		49.4%	45.5%	48.4%	28.3%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Spain	2004				
	The tax/benefit position of married couples				
	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		17913	23884	29855	23884
2. Standard tax allowances					
Basic allowance		6800	6800	6800	6800
Married or head of family					
Dependent children		2900	2900	2900	0
Deduction for social security contributions and income taxes		1137	1517	1896	1517
Work-related expenses		2400	5900	5216	5900
Other					
	Total	13237	14358	16812	12908
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		4676	9526	13043	10976
5. Central government income tax liability (exclusive of tax credits)		762	1926	2454	2274
6. Tax credits					
Basic credit		0	0	0	0
Married or head of family					
Children					
Other					
	Total	0	0	0	0
7. Central government income tax finally paid (5-6)		469	1238	1556	1467
8. State and local taxes		293	688	897	807
9. Employees' compulsory social security contributions					
Gross earnings		1137	1517	1896	1517
Taxable income					
	Total	1137	1517	1896	1517
10. Total payments to general government (7 + 8 + 9)		1900	3443	4350	3791
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	0
	Total	0	0	0	0
12. Take-home pay (1-10+11)		16013	20441	25505	20093
13. Employer's compulsory social security contributions		5481	7309	9136	7309
14. Average rates					
Income tax		4.3%	8.1%	8.2%	9.5%
Employees' social security contributions		6.4%	6.4%	6.4%	6.4%
Total payments less cash transfers		10.6%	14.4%	14.6%	15.9%
Total tax wedge including employer's social security contributions		31.6%	34.5%	34.6%	35.6%
15. Marginal rates					
Total payments less cash transfers: Principal earner		28.8%	28.8%	28.8%	28.8%
Total payments less cash transfers: Spouse		25.8%	6.3%	23.6%	6.4%
Total tax wedge: Principal earner		45.5%	45.5%	45.5%	45.5%
Total tax wedge: Spouse		43.2%	28.3%	41.5%	28.3%

The national currency is the euro (EUR). In 2004, EUR 0.81 was equal to USD 1 (average of eleven months daily exchange rates). In that year the Average Production Worker earned EUR 17 913 (Secretariat estimate).

1. Personal income tax system

1.1. Central government income tax

1.11. Tax unit

As a general rule, the tax unit is the individual. Nevertheless, families have the options of being taxed:

- As married couples filing jointly on the combined income of both spouses and dependents.
- As heads of households (only unmarried or separated individuals with dependents).

1.12. Tax allowances and tax credits

1.121. Standard reliefs

- *Basic reliefs*: A personal allowance of EUR 3 400 is granted for each individual. For married couples filing jointly the allowance amounts to EUR 3 400 for each spouse. This figure is EUR 5 550 for heads of households.
- *Dependent children* (under 25 years): EUR 1 400 for the first dependent child; EUR 1 500 for the second one; EUR 2 220 for the third and EUR 2 300 for the fourth.
- *Child care allowance*: An additional allowance of EUR 1 200 for each of the above dependent children under 3 years.
- *Maternity tax credit*: A non-wastable tax credit addressed to working females with children under 3 years of age up to EUR 1 200
- *Relief for social security contributions*: All these payments are fully deductible.
- *Work related expenses*: Net work income (gross income less employee social security contributions) may be reduced according to the following rules:
 - ❖ Taxpayers with net employment income equal or less than EUR 8 200: EUR 3 500.
 - ❖ For those with a net employment income between EUR 8 200 and EUR 13 000: EUR 3 500 less the result of multiplying by 0.2291 the difference between net income and EUR 8 200.
 - ❖ Taxpayers with net income over EUR 13 000 or non employment income over EUR 6 500: EUR 2 400.
- *Extending labour market participation allowance*: Taxpayers extending their labour market participation beyond the retirement age (65) may increase the work-related expense allowance by 100%.
- *Geographic mobility allowance*: Unemployed taxpayers accepting a job in a different location may also increase the work related allowance by 100%.

- *Disabled workers allowance*: An allowance of EUR 2 800 for disabled salary earners. Those with reduced mobility may claim an augmented allowance of EUR 6 200.

As a result of the application of the above rules, net income can not become negative.

1.122. Main non-standard reliefs applicable to an APW

- *Contributions to approved Mutual, Superannuation Funds and Mutual Insured Plans*: Contributions made by each member of the household, may reduce taxable income up to a maximum limit of EUR 8 000 yearly. Contributions made by taxpayers exceeding 52 years of age may be increased by EUR 1 250 for each additional year up to a maximum limit of EUR 24 250.

Also, those households whose second earner has net work income below EUR 8 000 may reduce taxable income up to a maximum of EUR 2 000 on a yearly basis, if the principal earner contributes to a Pension Fund for her/him.

- *Relief for subscriptions paid in respect of membership* of a trade union and business or professional associations (last item is limited to mandatory membership) up to EUR 300.51.
- *Relief for expenses made for the legal defence* of the taxpayer for labour-related conflicts up to a maximum limit of EUR 300.

Other non-standard reliefs provided as deductions are:

- *Investment in the acquisition and rehabilitation of own-housing*:
 - ❖ As a general rule, 15 per cent of the investment made during the year with a maximum limit of EUR 9 015.18.
 - ❖ By using external funds (*e.g.* loans, mortgage): The first two years after the acquisition or rehabilitation: 25 per cent of the first EUR 4 507.59 and 15 per cent of the rest, with a maximum of EUR 9 015.18. In subsequent years: 20 per cent and 15 per cent, respectively.
- *Gifts*: 10 per cent of the amounts donated to foundations and associations declared of public benefit. 25 per cent if these amounts are donated to some special legally approved foundations and associations and other private and public institutions.
- *Investments and expenses in goods of cultural interest*: 15 per cent of the amounts granted to the importation, restoration, exhibition, etc. of certain goods listed in the General Registrar of Goods of Cultural Interest.

The last two amounts shall not exceed 10 per cent of taxable income.

1.13. Tax schedule

General rates of tax – resident individuals.

Taxable income (EUR)	Tax at the lower limit (EUR)	Tax rate on taxable income in excess of the lower limit (%)
0.00-4 000.00	0.00	9.06
4 000.00-13 800.00	362.40	15.84
13 800.00-25 800.00	1 914.72	18.68
25 800.00-45 000.00	4 156.32	24.71
Over 45 000.00	8 900.64	29.16

1.2. State and local income taxes

Regional rates of tax – resident individuals.

Taxable income (EUR)	Tax at the lower limit (EUR)	Tax rate on taxable income in excess of the lower limit (%)
0.00-4 000.00	0.00	5.94
4 000.00-13 800.00	237.60	8.16
13 800.00-25 800.00	1 037.28	9.32
25 800.00-45 000.00	2 155.68	12.29
Over 45 000.00	4 515.36	15.84

2. Compulsory social security contributions to schemes operated within the government sector

Social Security contributions are assessed on the basis of employees' gross earnings taking into account certain ceilings of gross employment income. In 2004, these ceilings are:

- Lower ceiling: EUR 6 872.40.
- Upper ceiling: EUR 32 778.00.

These ceilings are based on a full-time job. For part-time workers, ceilings are proportional to the real hours worked (the tax equations used for this Report do not take into account the lower ceiling).

2.1. Employees' contributions

- Old age pension/sickness and disability 4.7 per cent.
- Unemployment 1.55 per cent.
- Professional training 0.1 per cent.

2.2. Employers' contributions

- Old age pension/sickness and disability 23.6 per cent.
- Unemployment/work injuries 6.0 per cent.
- Wages fund 0.4 per cent.
- Professional training 0.6 per cent.

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

Up to EUR 291 per child for taxpayers with annual gross earnings below EUR 9 770.04 in 2004, based on the assumptions made for the APW family-type (two children). These transfers are part of the social safety net and are not included in the calculations underlying this Report.

4. Main changes in tax/benefit systems in 2003

Effective as of 1 January, the government has made modifications to the Personal Income Tax Law providing for targeted reductions in taxpayers' tax burden in order to achieve specific policy objectives as described below:

- Recognise the central role of households. Increasing the existing family allowances for dependents, ascendants and the disabled. Creating new allowances for taxpayers with children under three years and for assistance to the elderly.
- Reduce taxation of labour income. Increasing the existing work related allowance and creating new work related allowances for workers extending their labour market participation beyond the official retirement age (65 years), and for those unemployed taxpayers accepting a job in a different location.
- Increase the supply of rental housing. A new tax incentive has been created allowing landlords the possibility of reducing their net capital income by a 50%.
- Improve female's labour market participation. A non-wastable tax credit has been introduced for female employees with children less than three years of age.
- Alleviate the taxation of saving and capital gains. Eliminating taxation of accrued capital gains in investment funds amounts are transferred from one fund to another and reducing the tax rate (from 18 to 15%) of long term capital gains (> 1 year).

5. Memorandum items

5.1. Identification of an APW and calculation of earnings

Refer to the information provided in Part III and Annex B of this Report.

2004 Parameter values

APW earnings	Ave_earn	17 913	Secretariat estimate	
Work related allowance	wr_rate	0.2291		
	wr_lim_max	13 000		
	wr_lim_min	8 200		
	wr_lim_min_1	8 200.01		
	wr_allow_max	3 500		
	wr_allow_min	2 400		
Basic Allowance	bas_allow_sing	3 400		
	bas_allow_fam1	6 800		
	bas_allow_fam2	5 550		
Dependent children	dep_child	1 400		
	dep_child2	1 500		
	dep_child3	2 220		
	dep_child4	2 300		
Tax Schedule	tax_sch_sg	0	0	9.06%
		4 000	362.4	15.84%
		13 800	1 914.72	18.68%
		25 800	4 156.32	24.71%
		45 000	8 900.64	29.16%
	tax_sch_sa	0	0	5.94%
		4 000	237.6	8.16%
		13 800	1 037.28	9.32%
		25 800	2 155.68	12.29%
		45 000	4 516.36	15.84%
Social security contributions				
Employee:				
Pension	pension_rate	0.047		
Unemployment	unemp_rate	0.0155		
Other	oth_rate	0.001		
Employer				
Pension	pension_empr	0.236		
Unemployment	unemp_empr	0.06		
Other	oth_empr	0.01		
Ceiling and Floor	min_lim	0		
	top_lim	32 778		

2004 Tax equations

The equations for the Spanish system are mostly applied on a joint (family) basis for married couples – except that individual taxation is chosen when this gives a lower value. But social security contributions are calculated for individuals. This is shown by the Range indicator in the table below. The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_sp” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_sp” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn	B	for individual taxation: $earn=earn_princ$, or $earn=earn_sp$ for joint (family) taxation: $earn=earn_princ+earn_sp$
2. Allowances:	tax_allow	B,J	$(earn_princ+earn_sp)-tax_inc$
Basic, individual	basic_ind	B	$IF(earn=0, 0, bas_allow_sing)$
Basic, family	basic_fam	J	$IF(AND(Married=0, Children=0), 0, IF(AND(Married=0, Children>0), bas_allow_fam2, bas_allow_fam1))$
Work related, individual	work_ind	B	$IF(earn-SSC<=wr_lim_min, wr_allow_max, IF(earn-SSC<=wr_lim_max, wr_allow_max-wr_rate*((earn-SSC)-(wr_lim_min+1)), wr_allow_min))$
Work related, family	work_fam	J	$IF(AND(earn_sp=0, Married=0, Children=0), 0, IF(earn_total-SSC_fam<=wr_lim_min, wr_allow_max, IF(earn_total-SSC_fam<=wr_lim_max, wr_allow_max-wr_rate*((earn_total-SSC_fam)-(wr_lim_min+1)), wr_allow_min)))$
Child, individual	child_ind	P	$IF(earn_sp=0, (children>0)*(dep_child+(children>1)*dep_child2+(children>2)*dep_child3+(children>3)*(children-3)*dep_child4), (children>0)*(dep_child+(children>1)*dep_child2+(children>2)*dep_child3+(children>3)*(children-3)*dep_child4)/2)$
Child, family	child_fam	J	$IF(earn_sp=0, 0, (children>0)*(dep_child+(children>1)*dep_child2+(children>2)*dep_child3+(children>3)*(children-3)*dep_child4)/2)$
3. Credits in taxable income	taxbl_cr	B, J	0
4. CG taxable income	tax_inc	B, J	$IF(AND(Married=0, Children=0), tax_inc_princ, MINA(tax_inc_princ+tax_inc_sp, tax_inc_fam))$
	tax_inc_ind	B	$Positive(earn-(basic_ind+work_ind+child_ind+SSC))$
	tax_inc_fam	J	$IF(AND(Married=0, Children), 0, Positive(earn-(basic_fam+work_fam+child_fam+SSC_princ+SSC_sp)))$
	liable_sing_1	P	$Tax(tax_inc_princ, TAX_SCH_S)$
	liable_sing_2	S	$Tax(tax_inc_spouse, TAX_SCH_S)$
	liable_joint	J	$Tax(tax_inc_total, TAX_SCH_F)$
5. CG tax before credits	CG_tax_ind_ex	B	$MAXA(0, VLOOKUP(tax_inc_ind, tax_sch_sg, 2)+(tax_inc_ind-VLOOKUP(tax_inc_ind, tax_sch_sg, 1))*VLOOKUP(tax_inc_ind, tax_sch_sg, 3))$
	CG_tax_fam_ex	J	$MAXA(0, VLOOKUP(tax_inc_fam, tax_sch_sg, 2)+(tax_inc_fam-VLOOKUP(tax_inc_fam, tax_sch_sg, 1))*VLOOKUP(tax_inc_fam, tax_sch_sg, 3))$
6. Tax credits :	tax_cr	B,J	0
7. CG tax	CG_tax_ind	B	CG_tax_ind_ex
	CG_tax_fam	J	CG_tax_fam_ex

Line in country table and intermediate steps	Variable name	Range	Equation
8. State and local taxes	local_tax_ind	B	$\text{MAXA}(0, \text{VLOOKUP}(\text{tax_inc_ind}, \text{tax_sch_sa}, 2)) + (\text{tax_inc_ind} - \text{VLOOKUP}(\text{tax_inc_ind}, \text{tax_sch_sa}, 1)) * \text{VLOOKUP}(\text{tax_inc_ind}, \text{tax_sch_sa}, 3))$
	local_tax_fam	J	$\text{MAXA}(0, \text{VLOOKUP}(\text{tax_inc_fam}, \text{tax_sch_sa}, 2)) + (\text{tax_inc_fam} - \text{VLOOKUP}(\text{tax_inc_fam}, \text{tax_sch_sa}, 1)) * \text{VLOOKUP}(\text{tax_inc_fam}, \text{tax_sch_sa}, 3))$
9. Employees' soc security	SSC	B	$\text{IF}(\text{AND}(\text{earn} > 0, \text{earn} \leq \text{min_lim}), \text{min_lim} * (\text{pension_rate} + \text{unemp_rate} + \text{oth_rate}), \text{IF}(\text{earn} \geq \text{top_lim}, \text{top_lim} * (\text{pension_rate} + \text{unemp_rate} + \text{oth_rate}), \text{earn} * (\text{pension_rate} + \text{unemp_rate} + \text{oth_rate})))$
	SSC_fam	J	$\text{SSC_princ} + \text{SSC_sp}$
11. Cash transfers	cash_trans	J	0
13. Employer's soc security	SSC_empr	B	$\text{IF}(\text{AND}(\text{earn} > 0, \text{earn} \leq \text{min_lim}), \text{min_lim} * (\text{pension_empr} + \text{unemp_empr} + \text{oth_umpr}), \text{IF}(\text{earn} \geq \text{top_lim}, \text{top_lim} * (\text{pension_empr} + \text{unemp_empr} + \text{oth_empr}), \text{earn} * (\text{pension_empr} + \text{unemp_empr} + \text{oth_empr})))$

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only S calculated for spouse only.

J calculated once only on a joint basis.

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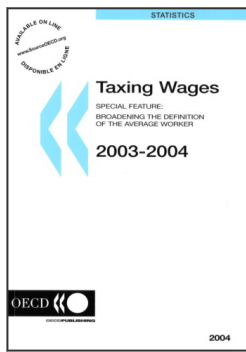
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