



Agencia Tributaria

**TAX REVENUE
ANNUAL REPORT**

2018



TAX REVENUE IN 2018

In 2018, Total Tax Revenue accounted to €209 billion, picking up by 7.6%. This pace was spurred by the change of VAT self-assessments deadline for taxpayers included in the new Immediate Information Supply System (SII), from July 2017 on, which meant a displacement of collection to 2018. **Amending this effect, revenue would have risen by 5.4%.**

The main drivers of the growth were the increment of tax bases and the enhancing result of 2017 Personal Income Tax (PIT) annual return.

Aggregate base of the main taxes grew by 6.1%, nearly one point over the increase scored the previous year and, for the first time, above the peak level recorded in 2007. In spite of the lessening pace of actual economy along the year (shown by variables as real GDP, social security affiliation figures, large corporations total deflated sales and the number of wage earners in those companies) the shape of the nominal variables evolution was quite different, at least as far as tax bases are concerned. On one hand, there was an additional income growth in the second semester thanks to salaries and pensions rises passed in July with the new Budget as well as to the higher profit in businesses. On the other hand, prices hike, particularly in energy products, boosted tax bases linked to spending in the same period.

Tax bases evolution brought to an increase of payroll withholdings, Corporation Tax (CT) instalments and VAT receipts that explain altogether a 90% out of the whole growth in 2018.

The rest of the hastening was driven by the good performance of 2017 PIT annual return (therefore linked to income from that year), with a strong increase scored by gross receipts and a steady path held by the refunds paid.



The economic climate

Real GDP enlarged by 2.6% in 2018, almost half a point under the rate scored in 2017. After the steady path of 2017, the trend followed throughout 2018 was of lessening, if year-to-year rates are considered. Total employees number (full-time equivalent figures) held an alike evolution, with a slight bounce back at the end of the year, and it finally ended with a 2.5% advance, compared with 2.9% in 2017. The slowing down of economy is explained chiefly by the performance of the external demand, which subtracted four tenths to GDP growth.

Short-term indicators, obtained from the information submitted by taxpayers, show the same findings. **Non-financial Large Corporations sales**, seasonal adjusted and deflated figures, went up by 3%, seven tenths below the pace of 2017. During the first quarter they held a growth close to the one achieved by the end of 2018, but from the second quarter on, the braking became marked. Domestic sales pace receded too, though not so noticeably, while export sales decelerated more intensely: they increased quite steadily in the first half, about 5%, but in the second part of the year they lost almost two percentage points.

Another fiscal indicator, which approaches salaried employment evolution, is the **number of wage earners in Large Corporations**. It increased by 3.1% in 2018, half a point below the estimate growth of the previous year, keeping the lessening trend started in mid-2017.

Likewise, Social Security enrollees scored a slower pace than in 2017 (3.1%, compared to 3.6%) and with a shape alike to those of the rest of real terms indicators: a slowdown, which was slight at the beginning of the year and sharpened as the months went by.

In order to follow revenue performance, nominal terms variables have to be taken into account, because they include the effect of current **prices**. Thereupon, prices reflected an alike evolution to the one held in 2017, particularly those related to spending. This was the case of deflator of household final consumption expenditure (it went up by 1.6% in 2018, as in 2017) and of CPI, the general index (1.7% and 2% each of the years) as far as the one worked out excluding raw food and energy products (it grew two tenths less than in 2017). As in 2017, prices evolution throughout the year was determined by energy products performance. In 2017, energy prices hike took place at the beginning of the year while they went up more gently the rest of the months. Yet, in 2018 prices rise was focused on the second half of the year. As in the rest of indicators, the average increase was alike in both years.



The macro magnitudes more directly linked to tax revenue evolution are the **domestic demand** at current prices and the **compensation of employees**. The former gained a 4.5%, two tenths under the rate scored in 2017, with a lessening softer than that recorded by real GDP. In turn, compensation of employees advanced a 4.1%, six tenths more than in 2017. Amid the softer enlargements of jobs figures, this boost was the result of the average salaries performance, which bounced back in 2017, after years of a sluggish trend, and consolidated the rise in 2018, particularly after the increase passed with Budget in July.

Tax Bases

Tax Bases grew by 6.1% in 2018, compared with 5.2% the preceding year. In 2018, bases kept on showing the enhancing trend recorded in the last five years and surpassed the peak achieved in 2007. In 2018, nominal domestic demand and bases evolution diverged because of the different performances of bases linked to income and bases related to spending, mainly in the second half of the year.

Bases related to **income** rose by 6.3% in 2018 (4.6% in 2017). The upward trend was clearly noticed in the second half of the year because of salaries and pensions rise passed with 2018 Budget, in July, and due to corporate profit improvement. Instead, on the **spending** side, bases held a high pace but slightly below to that recorded in the preceding year (5.8% in 2018, 6.1% in 2017), matching with nominal domestic demand trend shape.

In 2018, **gross households' income** grew by 5.2%, more than a percentage point above the pace scored in 2017. Through the year, two diverse stages can be identified: the first half, with rates around 4.7%, and the second one, with a 5.6% pace. The reason for these dissimilar performances lies on the public salaries and pensions rises of mid-year, after Budget Law was passed.

Certainly, salaries and pensions, which held a stable performance along the first part of the year, began to boost from July on. Wage bill bounced back in the last quarter, once the public salaries rise was carried out and related arrears were paid. Overall, labour income went up by 5.4%, one point higher than in 2017. Regarding pensions, they increased around 3% in the first half, while the growth jumped nearly to 5% in the second one. Taking the whole year, pensions bill went from a 2.5% expansion in 2017 to a 4.4% increase in 2018.



Regarding other income, capital income evolution was outstanding in two ways: on the one hand, all income (interests and dividends, leases and capital gains) rose by 5.6% in 2018, pace under the one achieved in 2017 due, chiefly, to the so diverging performances of capital gains in each year (30% in 2017 and scarcely a 2.7% in 2018). On the other hand was the interests and dividends rebound. This income had scored an almost continual fall since 2012, but this trend was broken in the central months of 2018. The main drivers were the higher dividends and the recovery of the yield of corporate bonds.

Consolidated Corporation Tax base is forecasted to have gained 12.8% in 2018, pace alike the evolution followed in the year by profit estimate (12.9%). These estimates are worked out using the data from instalments submitted by Large Corporations and Groups, which are the taxpayers liable to assess their payments according to the profit obtained across the fiscal year. In the instalments review, it was found that the profit growth was focused on a small number of Groups. Removing these, the trend of profit in the rest of the companies was one of progressive slowdown as the year went by.

Concerning bases linked to spending, they showed a quite high advance altogether, but slightly below the growth scored in 2017. **Spending subject to VAT**, ended 2018 with a 5.6% increase, compared to 6.4% the prior year. Considering prices evolution, the slowdown was attributable to spending in volume terms. The loss of strength, compared to 2017, was mainly noticed in the second part of the year. Looking at the constituents, the lessening was driven by households' consumption expenditure. However, Public Administrations spending was higher than in 2017 and new housing spending remained nearly unchanged.

On its side, the value of **consumptions subject to Excise taxes** climbed by 6.8% in 2018 (above 4.7% scored in 2017). As opposed to what happened in 2017, the enhancement cannot be explained by energy prices hike (they climbed average the same in 2017/2018). Rather, it was more closely linked to the uneven performance of alcohol and tobacco physical consumptions in 2017 and, to a lesser extent, to the positive outcome of gasolines, fuel oils and electricity consumptions in 2018. Nonetheless, these latter evolutions need to be nuanced because, in part, they were not directly connected to economic causes but to the weather evolution and some outliers in electricity consumption.



Effective tax rates

The average effective rate on income and spending remained nearly the same than in 2017. In 2018, there were some legal changes, but their effects were offset by the evolution of bases and prices. The average rate has kept almost unchanged, at around 15%, since 2013.

The effective rate on households' gross income held steady too in 2018. There were behind this stability three factors of different sign affecting average rate in 2018, one of them boosting it and other two slowing down the rate. Firstly, the salaries and pensions average rate rise, 1% for the former and 2.2% for the latter. About salaries, the increase contrasts with the steadiness of the rate in the previous two years, after the tax reform. The driver for this change was the average salaries hike (this was also a difference, compared to the preceding years) and the subsequent dragging on the average withholding rate. Regarding pensions, the rate rise has to do with the usual evolution after the entering in the system of retirees with higher pensions and average rates. Yet, as the second issue, both increments were balanced in the second half of the year with the widening of the tax relief on earned income, passed with Budget, which made rate slip down for the lowest salaries and pensions. Lastly, the third driver, which also pulled down the average rate, was the passing of the new allowances for families, whose total impact won't be seen until 2018 annual returns are submitted (the widening of the previously existing allowances had a limited effect in the amounts advanced and other items, as aids for nursery expenses will be only included in the annual return). This last reason explains the rise of the rate estimate without including annual return and family allowances (1%), in spite of the stability of the average effective tax rate.

In 2018, CT effective rate on aggregate tax base jumped by 21.3%, 9.9% if it is worked out of the positive accounting profit. Either outcome is chosen, without any significant legal change this growth is due only to a composition effect (the bases of the corporations with higher effective rates grow above those of the rest of the companies). Anyways, the rate of 2018 is not far from the average rates recorded in the last ten years.

As far as VAT is concerned, there were no significant legal changes either (only rates for movies were lowered during a half of the year) and the average rate held at 15.3%, which is the level reached after the increase of standard and reduced VAT rate from September 2012 on.

Regarding Excise Taxes, the variation in the rate seen in 2018 has to do with energy prices hike, as it happened in 2017. It should be reminded that in order to achieve an aggregate average rate the Excise Taxes rate is worked out on the value of consumptions, although in some of the items (especially Fuel Tax) physical consumptions are used for this purpose instead



of the value. It was just Fuel Tax the only excise on which legal changes took place, though with marginal effects. These modifications came from the approval of RDL15/2018, of 'urgent measures for energy transition and consumer protection', which included the exemption for the consumption of natural gas, diesel oil and fuel oil used in the production of electric energy.

Accrued Tax Revenue and Net Total Tax Revenue

TOTAL TAX REVENUE € Million

	2014	2015	2016	2017	2018	growth rates (%)				
						14	15	16	17	18
Personal Income Tax	72 662	72 346	72 416	77 038	82 859	3,9	-0,4	0,1	6,4	7,6
Corporation Tax	18 713	20 649	21 678	23 143	24 838	-6,2	10,3	5,0	6,8	7,3
Non-Residents Income Tax	1 420	1 639	1 960	2 274	2 665	0,2	15,5	19,6	16,0	17,2
Environmental taxes	1 625	1 864	1 574	1 807	1 872	3,5	14,7	-15,5	14,7	3,6
Other Revenue	195	256	197	193	201	17,0	31,3	-22,9	-2,4	4,4
<i>DIRECT TAXES TOTAL</i>	<i>94 614</i>	<i>96 753</i>	<i>97 827</i>	<i>104 454</i>	<i>112 434</i>	<i>1,7</i>	<i>2,3</i>	<i>1,1</i>	<i>6,8</i>	<i>7,6</i>
Value Added Tax	56 174	60 305	62 845	63 647	70 177	8,2	7,4	4,2	1,3	10,3
Value Added Tax without SII effect	56 174	60 305	62 845	67 797	70 275	8,2	7,4	4,2	7,9	3,7
Excise Taxes	19 104	19 147	19 866	20 308	20 528	0,2	0,2	3,8	2,2	1,1
+ Alcohol, beer and other	1 073	1 091	1 108	1 176	1 162	6,4	1,7	1,6	6,1	-1,1
+ Fuels	9 724	9 783	10 556	10 881	11 210	-2,1	0,6	7,9	3,1	3,0
+ Tobacco	6 661	6 580	6 677	6 628	6 533	1,9	-1,2	1,5	-0,7	-1,4
+ Electricity	1 383	1 385	1 290	1 306	1 352	-4,3	0,2	-6,8	1,2	3,5
+ Coal	265	309	229	312	271	79,2	16,8	-25,8	36,2	-13,1
Custom Duties	1 526	1 757	1 856	1 928	1 906	16,4	15,1	5,7	3,9	-1,1
Insurance Primes Tax	1 317	1 355	1 376	1 449	1 504	-0,6	2,9	1,6	5,3	3,8
Other revenue	113	164	178	186	162	32,2	44,4	8,9	4,5	-12,7
<i>INDIRECT TAXES TOTAL</i>	<i>78 233</i>	<i>82 726</i>	<i>86 122</i>	<i>87 518</i>	<i>94 278</i>	<i>6,1</i>	<i>5,7</i>	<i>4,1</i>	<i>1,6</i>	<i>7,7</i>
<i>FEES AND OTHER REVENUE</i>	<i>2 140</i>	<i>2 529</i>	<i>2 300</i>	<i>1 978</i>	<i>1 973</i>	<i>3,2</i>	<i>18,2</i>	<i>-9,0</i>	<i>-14,0</i>	<i>-0,3</i>
TOTAL TAX REVENUE	174 987	182 009	186 249	193 951	208 685	3,6	4,0	2,3	4,1	7,6
TOTAL TAX REVENUE without SII effect	174 987	182 009	186 249	198 101	208 783	3,6	4,0	2,3	6,4	5,4

In 2018, **Accrued Taxes** raised by 5.7% (6.1% if only the four main items are considered). Either outcome is chosen, the growth is alike to that recorded in 2017 (5.9% overall, 5.8% the core taxes). Accrued revenue evolution was similar to net total collection if SII effect is removed in 2017 and 2018 (5.4%). This means that alterations caused by the different moments chose to account revenue (accrued period in the first case and the date of actual receipts or refunds in cash method) were not significant in 2018, in aggregate terms.

Accrued **Personal Income Tax** increased by 5.3% in 2018, below the 6.2% pace scored in the prior year. Given the steadiness of the effective average rate, the growth was only the result of income performance in 2018. As stated before, the lower increase of accrued PIT, compared with 2017, stems from the negative impact of family allowances widening. This fact explains also the difference, in 2018, between total PIT increase (5.3%) and the pace obtained once subtracted annual return and family allowances (6.3%).



Payroll withholdings, the main part of tax collection, went up by 6.5% in 2018 (4.5% in 2017). It was the same increase achieved by salaries and, as a novelty, it was tied in not only with jobs creation but also with the increment of average wage and the resulting effective average rate rise. On their side, pensions withholdings raised by 6.7% (5.3% in 2017). Average rate rise, which was explaining more than a half of the growth in the previous years, was limited in 2018 by the new tax relief on earned income, with bigger impact on the lowest pensions. Yet, pensions rise passed with Budget promoted an enhancing performance of the tax base.

Net total PIT cash revenue amounted to €82.9 billion in 2018, 7.6% above 2017 figure. The different paces of accrued and cash revenue can be explained by the way in which the annual return is included in each measure. Accrued PIT comprises 2018 annual return, to be submitted in 2019, which is expected to record a worse performance because of family allowances, as seen before, while cash revenue includes 2017 annual return, submitted in 2018, which provided €1 additional billion to total collection.

Accrued **Corporation Tax** is expected to have risen 15.1% in 2018 according to estimates (11.1% without the 2018 annual return, to be submitted in July). The main constituents of the tax are the instalments, which grew by 11.9% in 2018. The performance shown by instalments was quite diverse depending on the different groups of taxpayers. Concerning Large Corporations and Groups, which work out their instalments on their current profit, the pace achieved a 13.5% (18.3% the Groups and 5.4% the corporations not belonging to any Group), neatly above the pace recorded in 2017. Particularly, the improvement was focused on a reduced number of Groups; the gain was lower in 2018 than in 2017 for the rest of corporations. In addition, it is remarkable the influence of the minimum payment in these outcomes. On the other hand, Small Corporations instalments (calculated on the last annual return submitted) grew by 2.3%, which means a strong contraction compared to the three previous years.

CT cash revenue summed up to €24.8 billion, enlarging by 7.3% over 2017 yield. The difference with accrued CT was the higher pace of refunds payments. Redressing this effect, the increase would be 12.8%, a closer evolution to accrued revenue.

In cash terms, the two most defining issues were instalments evolution, stated before, and the 14.1% refunds upturn. It needs to be recalled that those refunds are not linked to 2018 operations but to annual returns and assessments coming from previous years.



Accrued **VAT** went up by 5.6%, the same pace as the Spending subject to VAT. In 2018, there were some tax rates changes, but their influence in the overall evolution of receipts was insignificant.

VAT net cash revenue collection was of €70.2 billion, 10.3% above 2017 result. Revenue figure is affected by SII impact. Amending it, the growth would be 3.7%. Leaving SII effect aside, two reasons were behind the diverging evolution of accrued and cash revenue. On one hand, the high levels of refunds coming from 2017 and paid in 2018 as well as of Basque Country and Navarra taxation clearings. On the other hand, the lesser receipts from closed fiscal years (because of the legal changes in deferrals management passed in 2017, which affected the yield of 2018).

Accrued **Excise Taxes** enlarged by 1.9% in 2018, compared to 0.2% in 2017. As stated while commenting bases evolution, the explanation for this growth is not as much consumptions evolution as the uneven performance recorded by them through the year, particularly in tobacco and alcohol. Accrued Fuel Tax, the weightiest item of excise taxes, grew by 1.8%. This pace is below the 2.6% achieved in 2017, as a result of the lesser increase of natural gas consumption (associated to the lower use of this gas in the production of electric energy) and, in the last part of the year, due to the exemption of Fuel Excise Tax on natural gas, diesel oil and fuel oil spent for that same purpose, as provided for in RDL 15/2018. The growth in the products of highest consumption (gasoline and fuel oil) was similar in 2018 to that scored the prior year (2.4% and 2.1% each), though this pace was mainly achieved because of the increase in heating oil consumption (5%), which is more unpredictable and less related to economy evolution. Tobacco Excise Tax rose by 2.4% (-4.8% in 2017). The uneven path of the series disturbs the diagnosis that can be made of this item, in which consumptions and accrued tax are virtually steady since 2013, with 2.1 million boxes and €6,600 million per year. Accrued Electricity Tax increased by 4.4% in 2018, almost 3.5 points more than in 2017. Most of the growth was due to the irregularities that took place in May 2017 in the invoicing procedure of some companies that made consumption seem to have grown in 2018 more than it actually did. Coal Tax scored a sharp fall of 15.1% as it is being compared to the high level that had been reached in 2017 because of the use of coal as a substitute for water in the production of electric energy, when drought was at its peak. Even so, and with a broader point of view, revenue in 2018 was only slightly lower than the average of 275 million per year in the period 2014-2017. Finally, concerning taxes on alcohol, they increased as a whole by 1.8% (0.5% in 2017) due to the recovery of Alcohol Excise Tax and despite the slowdown in beer consumption.



In 2018, cash net Excise Taxes collection went up to €20.5 billion, picking up by 1.1%. The scarce differences with accrued revenue, related mainly with Tobacco and Alcohol excise taxes, are still due to the displacement of accrued revenue from the last months of 2016 to 2017, after the rates rise in that moment.

The rest of the tax items, other than the four main, collected €10.3 billion, 4.8% more than in 2017. Virtually all of the increase is due to Non-Resident Income Tax. In 2018 it recorded a growth of 17.2% which is explained by the evolution of income subject to withholdings (mainly the improvement in dividends) and by the result of the annual return. On the positive side, the environmental taxes in Chapter I (3.6%) and other revenue in Chapter III (6.4%) also stood out. On the negative side, it is necessary to point out the decrease of the Canon for the use of inland waters for the production of electric energy (-43.9%), affected by the drought of 2017 (fiscal year that was collected in 2018) and despite the increase in the rate that came into force in 2018.

Tax Revenue and its comparison to Budget

In 2017, Total Tax collection were below the figure budgeted in €1.3 billion, that is a 0.6% less than the level expected. Most of the difference lies on indirect taxes and fees (-€2.8 billion). Conversely, collection was higher than projected in Chapter I (+€1.4 billion).

Personal Income Tax actual yield was 1% higher than the figure in Budget (0.8 billion). The slippage had to do with the higher payroll withholdings and was related to the higher growth of effective average rate than the one expected according to the average compensation taken into account in the budgetary scenario. There was also higher revenue from PIT annual return, in spite of including refunds from parental allowances (94 million), firstly taxed and then exempted by High Court after the Budget was passed.

There was also a positive deviation in Corporation Tax (€0.6 billion). The reason for this difference was a better-than-expected evolution of instalments, at around €1 billion estimate. This higher revenue was offset by the higher than expected amount of refunds paid.

VAT revenue was €1.4 billion lower than budgeted. The slippage was the result of the underestimation of the amount of refunds to be paid in 2018.



Revenue from Excise Taxes was also lower than expected (€1.1 billion), mainly due to a worse than expected performance in the consumptions of fuel, tobacco and electricity.

Finally, in Chapter III, income did not reach the figure estimated in the Budget (-123 million) due to the unexpected fall in some taxes and, particularly, due to the sharp drop in the Canon for the use of inland waters.