Methodological summary: INCOME TAX

Introduction

INTRODUCTION AND REGULATIONS

This is taxation of a personal and direct nature payable as income tax in accordance with the personal and family circumstances of individuals.

State Tax Administration Agency (AEAT) M % of Economy and Treasury, Public % of yearly *Bankruptcy Proceedings IRPF.* Income Tax details are derived from the breakdown of some of the tax variables that are included in the forms on which the income tax declaration-self-return is presented.

Generally, all individuals normally resident in Spain during the calendar year to which the income tax refers, and who have received income subject to this in the aforementioned period, are obliged to make an income tax return, regardless of where origin of the aforementioned income. The different laws on income tax have always been regarded as an income threshold below which there has been no obligation to make the corresponding tax return; this threshold has varied over time. This threshold conditions the numerical data collected in these statistics, since it means that the information referring to persons who have not made an income tax return is not collected; these persons will only be, save in case of tax fraud or exempt income, those whose income has been below the amount whereby there is an obligation to make a tax return. Nevertheless, some taxpayer who are not obliged to do so make the corresponding tax return, primarily in cases whereby the amounts payable as income tax exceed the amount that they must pay in the aforementioned tax.

GEOGRAPHICAL SCOPE

Income tax is applied throughout Spain, notwithstanding the fact that the regulations of the Economic Agreement with País Vasco and of the Economic Agreement with Comunidad Foral de Navarra recognise those territories' tutelage to maintain, establish and regulate their own taxation scheme, by general State taxation structure.

Features

GENERAL FEATURES

The purpose of the tax is individuals' income; as of Law 40/1998, taxable income is disposable income (the result of decreasing the personal and family minimum amount of income).

The different income tax laws have considered specific revenue to be exempt of tax. In general, and since 1992, the income tax return and payment that must be made has been submitted individually; nevertheless, persons integrated into a family unit under the terms defined in the income tax legislation may opt to make their tax return jointly.

Since 1997 income tax regulatory jurisdiction has been yielded to the different Autonomous Communities, among which, and subject to specific requirements, those of the ability to regulate an automatic rate applicable to the assessed base. For this reason, since 1997 rates have a national scale, as well as an Autonomous Community one, the latter approved by the Autonomous Community where the taxable person usually resides.

REVENUES FROM WORK

These are monetary considerations derived directly or indirectly from personal work or labour or statutory relation and are not regarded as revenue from economic activities, and include both monetary remuneration, and payment in kind.

PERFORMANCE CAPITAL

Capital performance is made up of monetary considerations originating from financial appropriations for economic activities. Net performance capital is obtained after removing from gross revenue deductible expenses and applying, where appropriate, the corresponding reduction coefficients. These revenues are made up of two blocks, each with specific regulations: revenue from equity and from movable capital.

REVENUE FROM ECONOMIC ACTIVITIES

Revenue from economic activities is that which, originating from personal work and from capital together, or from only one of these factors, entail on the part of the taxable person the self-ordering of the means of production and of human resources or of one of each in order to intervene in the production or distribution of goods or services.

Revenue from economic activities is generally determined by estimating the deductible income and expenditure and calculating ret revenue.

IMPUTATION OF INCOME

Imputation of income to the taxpayer is carried out by incorporating some of the income deriving from ownership of estates and, fundamentally, lead to payment of tax on income from companies.

CAPITAL PROFIT AND LOSS

In addition to the previous income, among the components of revenue that pays income tax, are the variations in value of the capital of the taxpayer, which are highlighted in the event of changes in its composition. Taxation of this type of revenue has been subject to significant amendments over time. In taxation terms, whether it was considered regular or irregular income varied depending on the type of asset and the period of when the increase or decrease in capital came about.

TAXABLE BASE, ASSESSED BASE AND PERSONAL AND FAMILY MINIMUM

As of Law 40/1998, in order to obtain the *taxable base* of the tax, which is made to coincide with the so-called disposable income, the persona and family minimum is subtracted from the revenue generated in the period. The *personal and family minimum* is based on an estimate of the vital needs of the taxpayer and of his or her dependants, by his or her demographic and social features. The *assessed base* is the result of applying reductions established by law in each case to the taxable base.

GENERAL AND SPECIAL TAXABLE BASE

Since 1999, when working out tax on the taxpayer's income, the latter is partly classified as general and partly as special; the general part is made up of the total revenue and imputation of income, in whatever period they were generated, and the capital profits and losses generated in a period below that legally specified; the special part of the taxable base comprises capital profits and losses during longer period of time, supplementary to that required in order to form part of the general base.

TAX RATE

Until Law 40/1998 there were regular and irregular taxable bases and their corresponding assessed bases. The breakdown of the assessed base on regular and irregular components specified that the entire net tax liability be calculated by applying types of capital levies, differentiated from each of the assessed bases, thus obtaining two taxes, the regular one and the irregular one, the sum of which formed the net tax liability.

Law 40/1998 introduces the general taxable base and the special taxable base and their corresponding assessed bases. All progressive rates on the tax scale are applied to the general assessed base; conversely, fixed rates are applied to the special assessed base.

Law 40/1998 covers the same encumbrance scale for individual and joint taxation, therefore only two encumbrance scales appear: State and Autonomous Community.

NET TAX LIABILITY, DEDUCTIONS AND TAX LIABILITY

The *net tax liability* is obtained having applied the corresponding rates to the assessed bases; this is formed of the state and Autonomous Community parts. The sum of regular and irregular or general and special tax liabilities, as appropriate to the reference period, is the one specified by the *net tax liability*.

In order to specify the tax debt, or *tax liability*, deductions are applied to the net tax liability, which in each case is specified by the tax legislation.

Income tax regulations establish the *deductions* that may generally be applied for all taxpayers who meet the legally established requirements in order to be entitled to these, irrespective of the Autonomous Community in which they are resident. The amount corresponding to general deductions is applied as a percentage in order to reduce the state net tax liability, with the rest reducing the Autonomous Community tax liability. In this way the state net tax liability and the Autonomous Community net tax liability are obtained, as is, by aggregation, total tax liability for the tax.

The adjustments established by the regulations that entail an increase in the tax liability (through loss of entitlement to deductions) generate what is known as the increased tax liability.

DEDUCTIONS, DIFFERENTIAL INCOME AND RESULT OF THE CALCULATION OF AMOUNTS DUE/RECEIVABLE

Once the amount of the total tax liability and the increased has been quantified, calculation of amounts due/receivable end when compensation for double taxation is regulated, resulting in the self-return quota. The amount corresponding to payments on account for the financial year (deductions) will be deducted from the resulting self-return quota, which will give so-called differential income.