
SPAIN 2007

1. Overview of the tax-benefit system

Unemployed persons are covered by two successive benefits: a contributory unemployment insurance benefit for 120-to-720 days depending on contributions, then an assistance benefit for 3-to-30 months. (The most common duration of unemployment assistance is 18 months, and for persons over 52 the duration is that necessary to arrive to the age in which he/she starts receiving the contributory retirement pension.) There is also a last resort scheme called the *Renta Mínima de Inserción* (Minimum Income for Insertion). Family benefits are income-related. The tax unit is the individual; nevertheless family units have the option of filing their tax returns on a joint basis. Finally, there is the programme named *Programa de Renta Activa de Inserción* (Insertion Active Income Programme), whose objective is to help long-term job seekers, older than 45, among other groups, to re-enter in the labour market. This programme lasts for 11 months.

1.1. *Average worker wage (AW)*¹

According to the Centre for Tax and Policy and Administration, the 2007 AW level is EUR 21989.

¹ AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see *Taxing Wages 2005-2006*, OECD, 2007, part 5, sections 2 and 3.

2. Unemployment insurance

2.1 Conditions for receipt

Unemployment benefit can be paid to a registered unemployed person aged 16-65, who is available and actively seeking work, and who did not leave his/her previous job voluntarily. Additionally, unemployed persons have to subscribe to a pledge of activity by virtue of which they commit themselves to search actively for a job and to accept a suitable job.

On all the levels of protection by unemployment either the unemployment insurance one or the unemployment assistance one and in their different categories, applicant and beneficiary workers of the benefit by unemployment are obliged to sign and comply with an a "commitment of activity", understanding by such a to look for a job actively, to accept a placement suitable and to take part in actions addressed to raise their employment, in accordance with Law 45/2002, of 12 December (Article Firstly Eleven). This condition must be gathering as a requirement to have the right to any of the benefits considered within the protection system by unemployment.

2.1.1 Employment conditions

None.

2.1.2 Contribution conditions

A claimant must have contributed for a minimum of 360 days in the 6 years preceding the legal status of unemployment.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

It is 70 per cent of reference earnings for a maximum period of 180 days, then 60 per cent of reference earnings for the remaining period of the benefits (see section 2.4 for the duration of the benefit); reference earnings correspond to the average gross earnings over the last 180 days.

The benefit is limited by a maximum and a minimum that depend on the number of dependent children below age 26. Both are expressed as a percentage of the IPREM (public indicator of incomes of many effects) from 01/07/2004, with an increment of 1/6 (proportional to bonus payment). For 2007, IPREM is EUR 499,2 per month ---, that is EUR 5990,40 yearly², including in both cases the proportional part of bonus payment.

² -. For 2007, Law -42/2006, of 28 December -, has established the following quantity for the IPREM, reference of the benefit amount: EUR -582.4 per month and EUR-6988.8 yearly, including the bonus payments”.

Family type	In per cent of IPREM*	
	Minimum	Maximum
		175
	80	
With no dependent children	(465,92€ /month)	1019,20€ /month)
	107	
	623,16	
With dependent children	€ /month)	
		200
		1164,80€ /month)
One child		
		225
		(1310,40
Two or more children		€ /month)

* With an increment of 1/6 (proportional to bonus payment).

2.2.2 *Income and earnings disregards*

The maximum and minimum unemployment benefits are reduced in proportion to hours worked in relation to the company's normal full working day.

2.3 *Tax treatment of benefit and interaction with other benefits*

Normally taxable. For a person on unemployment insurance, the total social security contributions amount to 65 per cent of 4.7 per cent of reference earnings, subject to lower and upper ceilings (see section 10.3).

2.4 *Benefit duration*

The total duration increases with contribution record. There is no waiting period; the benefit is paid 7 days per week.

Time worker contributed within last 6 years (in days)	Duration of unemployment benefit (in days)
360-539	120
540-719	180
720-899	240
900-1079	300
1080-1259	360
1260-1439	420

1440-1619	480
1620-1799	540
1800-1979	600
1980-2159	660
2160+	720

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

None.

2.5.2 *Older workers*

None.

2.5.3 *Others if applicable*

As from 1st June 2002, casual agriculture workers pay the contribution to Social Security for covering the contingency for unemployment and they have the right to receive unemployment benefit. The duration of the allowances depends on the period of contributions having been paid during last six years, and it oscillates between a minimum of 90 days, when the period of contributions has been at least from 360 to 539 days, and a maximum of 540 days, when the period of contributions has been from 2 160 days or more. From 1st June 2002 the covering of the contingency for unemployment is "compulsory".

3. Unemployment assistance

3.1 *Conditions for receipt*

It consists of monetary unemployment assistance and the Social Security contribution corresponding to health coverage, family protection, and when appropriate, retirement.

The time and contribution to Social Security depends on the type of subsidy the worker is entitled to.

- Workers who have exhausted their unemployment benefits and have family responsibilities.
- Workers over 45 who have exhausted their unemployment benefits of at least 12 months and who do not have family responsibilities.
- Spanish emigrant workers who, having returned from countries not pertaining to the European Economic Area or with which no agreement exists regarding unemployment insurance, can prove having worked a minimum of 12 months in the last six years in said countries since their last departure from Spain, and are not entitled to unemployment benefits.
- Workers who, when legally unemployed, did not meet the minimum contribution period to be eligible for contributory unemployment benefits.
- Those released from prison.
- Workers who, after a medical revision, are declared fully capable or partially disabled due to recuperation from a situation of great disability, or absolute or complete permanent disability for usual work.
- Special subsidy for workers over 45 who have exhausted their 24-month unemployment benefits.
- Unemployment subsidy for workers over 52.

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

It is 80 per cent of the IPREM (public indicator of incomes of many effects) from 01/07/2004, excluding the proportional part of bonus payments. The IPREM in 2007 was EUR 499,20 € per month.

3.2.2 *Income and earnings disregards*

It is means-tested. The condition to receive the benefit is that there are no individual earnings in the family over 75 per cent of the interprofessional minimum wage that was monthly EUR 570.60 in 2007. There are no disregards.

3.3 Tax treatment of benefit and interaction with other benefits

Taxable. Not subject to social security contributions. Recipients for whom UA is the sole income source do not pay tax.

3.4 Benefit duration

The duration is six months, which may be extended for a further two periods of the same duration, up to a maximum of 18 months. For persons over 52, this benefit continues as long as is necessary, until the claimant either re-enters the workforce or reaches statutory retirement age, at which point he/she is eligible for the contributory retirement pension.

3.5 Treatment of particular groups

3.5.1 Young persons

None.

3.5.2 Older workers

Those older than 45 who have exhausted their entitlement to contributory benefit for 24 months can receive from 80 to 133 per cent of IPREM, depending upon their family circumstances (*i.e.* children, etc.).

- With one relative to support or none at all: 80 per cent of IPREM
- With two relatives to support: 107 per cent of IPREM
- With three or more relatives to support : 133 per cent of IPREM.

The duration of this benefit is 6 months. Workers aged 52 or over, having exhausted their UI benefits, may be entitled to prolonged unemployment benefits at a flat rate of 80 per cent of the IPREM. This benefit lasts until they reach retirement age.

3.5.3 Others if applicable

In the Autonomous Communities of Andalucía and Extremadura, due to high level of unemployment in the agriculture sector, casual agriculture workers who have worked 35 days, at least, in agriculture jobs during the 12 months previous to the unemployment situation can have the right to receive unemployment subsidies in some circumstances.

Income for casual agriculture workers. (*Renta Agraria*) :

Casual agriculture workers living in the Autonomous Communities of Andalucía y Extremadura who are registered as unemployed, have worked 35 days, at least, in agriculture jobs during the 12 months previous to the unemployment situation, meet other requirements and have not the right to receive the *Subsidy of casual agriculture workers*, can have the right to receive the unemployed subsidy called *Renta Agraria*. The incorporations that happen for the first time are registered in the new system named "*Renta Agraria*".

Programme of active income for job insertion(*Renta Activa de Inserción*):

The objective of this programme is to help long-term unemployed claimants over 45 who are in situations of need, to get back to work. In order to claim this benefit, unemployed claimants must have

reached the age of 45, not to have the right to Unemployment Benefit or to Unemployment Assistance, have been registered at the Employment Office for at least 12 months and not to have any income exceeding 80 per cent of IPREM, excluding the proportional part of bonus payments. Also those who met the following requirements may be eligible: handicapped workers affected to a degree of 33 per cent or more and met all the requirements as set up above with the exception of being over 45 years of age; emigrants who have returned to Spain in the 12 months prior to receipt of the application and have worked at least 6 months abroad and met all the requirements with the exception of having been registered during the last 12 or more months; workers who have been victims of domestic violence and met all the requirements with the exception of age and having been registered during the last 12 months. The allowance is the equivalent of 80 per cent of IPREM and the duration is for a maximum of 11 months.

4. Social assistance

There is a minimum income scheme called the Ingreso Mínimo/Renta Mínima de Inserción (Minimum Income for Insertion) implemented in the 17 Autonomous Communities/regions. There is no specific national legislation defining it, but the general principle is to alleviate poverty by means of cash benefits for basic living needs. The region of Madrid is considered below as being representative.

4.1 Conditions for receipt

The claimant must be available and actively seeking work. The minimum age is 25 or less if the claimant has dependants (although it can be 18 in certain regions), and the maximum age is 64 (old-age pension from 65). Qualifying households must pass an income test.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

In 2007 the scale of the MII, depending on the number of dependent members in the family, is the following

Number of people	Monthly amount in €	Supplement in €
1 st person	340	
2 nd person		102
3 rd person and following		68

4.2.2 Income and earnings disregards

It is means-tested on a one-to-one basis, using gross family income excluding family benefits. There are no disregards.

4.3 Tax treatment of benefit and interaction with other benefits

Taxable, but the tax system is structured such that a year-long recipient will pay no tax.

4.4 Benefit duration

It lasts as long as the conditions are fulfilled.

4.5 Treatment of particular group

4.5.1 Young persons

None.

4.5.2 *Older workers*

None.

4.5.3 *Others if applicable*

5. Housing benefits

Some regions (including Madrid) apply housing benefit schemes. A tax credit for housing expenses does exist (see section 10.1.1) at a national level.

5.1 *Conditions for receipt*

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

5.2.2 *Income and earnings disregards*

5.3 *Tax treatment of benefit and interaction with other benefits*

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

5.4.2 *Older workers*

5.4.3 *Others if applicable*

6. Family benefits

6.1 Conditions for receipt

To have dependent children of less than 18 years of age or older handicapped children affected to a degree equal to 65 per cent or more. In the case of children under 18 no handicapped, benefits are income related.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

In 2007, the amount is the following, per dependent child, depending on the situation:

- Children under 18:
 - a) No handicapped: EUR 24.25 per month (EUR 291 per year).
 - b) Handicapped to a degree of 33 per cent or more: EUR 48.47 per month (EUR 581.64 per year).
- Children over 18:
 - a) Handicapped to a degree of 65 per cent or more: EUR 312,43 per month (EUR 3749,16 per year).
 - b) Handicapped to a degree of 75 per cent or more and needing the help of another person: EUR 468,65 per month (EUR 5623,80 per year).

The right to entitlement will be the total benefit in the case of handicapped children, without having into account the level of family income.

In the case of children no handicapped, the right to entitlement will be:

- The receipt of the total benefit, provided it does not exceed the upper limit laid down of - 9328,39 euros/year, increased by 15 per cent, namely 1399,26 euros/year, for each child after the second one. For large families, the limit will be 15903,65 euros when there are 3 dependent children, increasing by 2575,95 euros for each dependent child after and including the fourth child.

The benefit will be reduced if the income is above that specified in the previous item but at the same time below the amount found adding to this figure the amount of the subsidy for the number of children who are not handicapped(maximum limit).

The following table allows us to establish the limits for maximum integrated benefit and for maximum income depending on the number of dependent children.

Number of dependent children	Limit for maximum integrated benefit (EUR)	Maximum limit of income (EUR)
1	9328,39	9619,39
2	10727,65	11309,65

3	15903,65	16776,65
4	18479,60	19643,60

In any case, in order to have the right, the difference between two items must be equal or superior to EUR 24.25 per child/year.

6.2.2 *Income and earnings disregards*

In the case of children no handicapped, it is means-tested on a one-to-one basis on gross family income exceeding in 2007 EUR 9328,39 per year (increasing with 15 per cent for every dependent child from the second).

6.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

6.4 *Treatment of particular groups*

None.

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

7. Childcare for pre-school children

The following information is picked up in the *Action Plan for the Employment of the Kingdom of Spain* approved in October 2004:

<i>a) With respect to the covering of the system</i>		
	% of Schooling children (Course 2003/2004)	Objective year 2010 (%)
From 0 to 2 years	12,1	33
Of 3 years	98,0	Improve
From 4 to 5 years	100	Reached
<i>B) With respect to the financing of the system</i>		
	Implemented budget 2003 (Euros)	Initial budget 2004 (Euros)
Child-care (Guarderías+Desgravaciones)	99,016,015	28,793,830 (1)
Schooling before the compulsory age	2,229,656,000	2,546,404,700

(1) Pending of the contributions CC. AA. and the call of grants

SOURCE: Ministry of Labour and Social Affairs and Ministry of Education and Science

The age of compulsory schooling is established in the 6 years.

7.1 *Out-of-pocket childcare fees paid by parents*

There is a relation between the amount of the quotas and the level of income and/or the number and ages of children in care.

There are a wide variety of situations throughout the country regarding the expenditure in centers that attend to children under 6 years during the working day of their parents.

Average quota in centers of children from 3 to 5 years (pending data MEC, requested 1-7-05).

A/ Average quota in centers of children from 0 to 2 years: Around the 6,000 Euros per year it is the estimated cost of a place for children of this age that remain in a center during the working day of its parents.

Almost all the Autonomous Communities have a certain supply of public places that are subsidised and are, consequently, of low cost for the families. The level of income of the family group is taken into account to agree. Furthermore, to determine the quotas, a scale in function of that same criterion are also established and of another as the fact of being lone-parent family, that of there are brothers in the center, that is of that both members of the couple work, etc . It is difficult to generalise, but can be considered that

the parents paid in this rate of centers 1/3 of the cost of the place, corresponding to the civil services (local corporations, autonomous and/or central government) to pay the other 2/3 of the total cost. Consequently, the families, in these public centers must credit around EUR 2,000 per year. On this third general side, there are some who credit the entirety and are one who credits no amount or credits a symbolic amount, by his special family circumstances and/or of income.

In the private centers the families must paid the total cost (EUR 6,000).

B/ Specify if it's means averages or regulatory.

The data that are facilitated are estimated averages, because a wide variety in the public centers of the different local or autonomous administrations exists. There is no state regulatory on maximum or minimum quotas to satisfy by the families.

7.2 *Child-care benefits*

7.2.1 *Conditions for receipt*

7.2.2 *Calculation of benefit amount*

7.2.2.1 Calculation of gross benefit

7.2.2.2 Income and earnings disregards

7.2.3 *Tax treatment of benefit and interaction with other benefits*

For the mothers workers (and lone- parents) with children under 3 years, there are a **general deduction in the tax on the income of individuals for a amount of EUR 1,200 per year**. Some Autonomous Communities establish additional deductions for childcare fees of children under 3 years in centers.

Birth allowance or birth benefit: EUR 2.500 for each born or adopted child in Spanish territory since July, 1st 2007.

7.2.4 *Treatment of particular groups*

8. *Employment-conditional benefits*

None.

8.1 *Conditions for receipt*

8.2 *Calculation of benefit amount*

8.2.1 *Calculation of gross benefit*

8.3 *Tax treatment of benefit and interaction with other benefits*

8.4 *Benefit duration*

8.5 *Treatment of particular group*

8.5.1 *Young persons*

8.5.2 *Older workers*

8.5.3 *Others if applicable*

9. Lone-parent benefits

None.

9.1 *Conditions for receipt*

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

9.2.2 *Income and earnings disregards*

9.3 *Tax treatment of benefit and interaction with other benefits*

9.4 *Benefit duration*

9.5 *Treatment of particular group*

9.5.1 *Young persons*

9.5.2 *Older workers*

9.5.3 *Others if applicable*

10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

Basic reliefs: Married couples filing jointly may claim an allowance of EUR 3 400. This figure amounts to EUR 2 150 for heads of households.

Maternity tax credit: a non-wastable tax credit addressed to working females with children under 3 years of age up to EUR 1 200

Birth allowance or birth benefit: EUR 2.500 for each born or adopted child in Spanish territory since July, 1st 2007.

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 9 000: EUR 4 000
- For those with a net employment income between EUR 9 000.01 and EUR 13 000: EUR 4 000 less the result of multiplying by 0.35 the difference between net income and EUR 9 000.
- Taxpayers with net income over EUR 13 000 or non employment income over EUR 6 500: EUR 2 600.

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

10.1.2.2 Main non-standard reliefs applicable to an AW

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 of the following amounts:

30 per cent of net income; 50 per cent of net income for taxpayers aged over 50 years;

EUR 10 000; EUR 12 500 for taxpayers aged over 50 years.

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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 500.
- *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.
- 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.

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

10.1.1.3 Exempt Incomes

- The base amount is EUR 5 050 per taxpayer. The same amount is granted for family units filing jointly. Taxpayers aged over 65 years may add EUR 900 to the former amount. Those aged over 75 years may claim additionally EUR 1 100.
- Dependent children (under 25 years): EUR 1 800 for the first dependent child; EUR 2 000 for the second one; EUR 3 600 for the third, and EUR 4 100 for the fourth child.
- Child care allowance: an additional allowance of EUR 2 200 for each of the above dependent children under 3 years.

10.1.1.2 Standard tax credits

10.1.2 *Income tax schedule*

Table 1. 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 – 17 360	0	15.66
17 360 – 32 360	2 718.58	18.27
32 360 – 52 360	5 459.08	24.14
Over 52 360	10 287.08	27.13

10.1.3 *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 – 17 360	0	8.34
17 360 – 32 360	1 447.82	9.73
32 360 – 52 360	2 907.32	12.86
Over 52 360	5 479.32	15.87

10.2 *Treatment of family income*

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 dependants.
- As heads of households (only unmarried or separated individuals with dependants).

10.3 *Social security contribution schedule*

Social Security contributions are assessed on the basis of employees' gross earnings taking into account certain ceilings of gross employment income. In 2007 these ceilings are:

Lower ceiling: EUR 7 988.4

Upper Ceiling: EUR 35953.2

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).

- 4.7 per cent for pensions/sickness and invalidity.
- 1.55 per cent for unemployment.
- 0.1 per cent for training.

For a person on unemployment insurance, the total social security contributions amount to 65 per cent of 4.7 per cent of reference earnings, with the same lower and upper ceilings. The rest of social security contributions for pensions and sickness (up to 28.3 per cent of reference earnings) are paid by the Public Service of Public Employment (Servicio Publico de Empleo Estatal). This public body also pays contributions for individuals on unemployment assistance. Contributions are neither payable over family benefits, nor over social assistance.

10.4 *Treatment of particular group*

10.4.1 *Young persons*

10.4.2 *Older workers*

10.4.3 *Others if applicable*

11. Part-time work

11.1 Benefit rules for part-time work

Persons working less than 12 hours/week or 48 hours/month contribute and they are therefore covered for unemployment insurance.

11.2 Special tax and social security contribution rules for part-time work

12. Policy developments

12.1 *Policy changes introduced during the previous year*

There was the creation of the Public Indicator of Incomes of Many Effects (IPREM), approved by Royal Decree- Law 3/2004, of 25 June. The IPREM becomes, from 1 July 2004, the reference indicator to determine the different social benefits amounts.

With the IPREM, the minimum wage is detached as a whole of the social benefits amounts, aid and grants own of the Spanish Welfare State. In this way, the SMI recovers its essential function as guarantee of payment, so that workers cannot perceive a payment below the minimum wage for their salaried work in any activity.

The IPREM is approved each year in the Law of General Budgets of the State, subject to consultation with the social partners, taking into account the aim of inflation used in the Law of Budget. In 2007 its annual amount rises to EUR 5990,40, rising to EUR 6988,80 if the bonus payments are included.

Concerning the unemployment benefit system a peculiarity is established, so that in the requirements of access and maintenance of the benefits the link to the minimum wage is kept while, definitively, the benefit amount is detached of the minimum wage as a whole and become referred to the IPREM.

A new Personal Income Tax Reform since January 2007

The 2007 personal income tax reform keeps pace with some of the trends already introduced by previous tax reforms that came into force in 1999 and 2003 respectively, and which were related to tax simplification, but at the same time is intended to provide a solution to some current problems that are created by or are not well addressed by the latter PIT reforms; such as:

- The lack of equity caused by the tax treatment of personal and family circumstances within the former PIT, as taxpayers with identical personal and family situation obtained major tax savings if their income increased,
- The low level of tax allowances and tax thresholds, and
- The erosion of the tax base caused by the existence of certain tax benefits, which were considered to be inefficient (i.e. pension plans and the personal dwelling tax deduction).

The PIT reform process mainly aimed at producing low costs in terms of foregone tax revenues and at preserving the redistributive capacities of the tax. In short, the guidelines followed by the PIT reform were:

- Higher equity in the tax treatment of personal and family circumstances and an increase of the existing tax allowances,
- Improvement of the tax treatment of earned income,
- Tax simplification,
- Preserving budget stability: low revenue cost,
- Other measures mainly aimed at improving the tax treatment of contributions to pension plans, housing, dependency, etc.

The main tax measures that have been taken are discussed below.

Personal and family allowances

Three main goals were pursued:

- To set up a basic tax-exempt income threshold,
- To lower the overall tax burden (to increase disposable income), given taxpayers' economic capacity and their personal and family circumstances,
- To simplify the tax (for the tax administration as well as citizens) and to avoid that very low income households have to pay income tax.

One the main innovations introduced by the new PIT reform is the new tax treatment of personal and family allowances, which are now subject to a “zero tax rate”. This feature, which will be discussed in more detail below, is intended to favour low- and middle-income taxpayers by improving progressivity and redistribution through the PIT.

Tax schedule

The new tax schedule has now four instead of five tax brackets. The top marginal tax rate has been lowered from 45 to 43 per cent and the income tax brackets have been increased.

The new tax schedule has an additional feature. Given the increase of the first bracket up to EUR 17 360, approximately 70 per cent of taxpayers will be subject to a 24 per cent tax rate, which is the first marginal tax rate.

As far as the formal structure of the zero tax rate bracket is concerned, the legal text has chosen the “exemption from the bottom up” mechanism, which may be defined as follows:

- First, both the net taxable base and the personal and family allowances are computed. In case of a net taxable base lower than the personal and family allowances, the final tax liability is set to zero.
- The tax schedule is applied to gross taxable income = taxable income + personal and family allowances. Afterwards, the tax schedule is applied to the personal and family allowances, and this amount is subtracted from the tax amount obtained previously. Thus, personal and family allowances reduce the final tax liability in an amount equal to the application of the general tax rates to the total amount of personal and family allowances.

Labour income taxation

Work related allowance had already been increased. Taking into account the parallel increase of personal allowances, a single worker with no children and income below EUR 9 000 will no longer have to pay income tax.

12.2 *Policy changes announced*

- Establishment of a new procedure to simplify the management of unemployment benefits through different electronic/telematic techniques, modifying thus the developing rules of the regulatory norm of unemployment benefits.
- Establishment of a permanent nature for the Insertion Active Income (Renta Activa de Insercion) to avoid annual scheduling.
- Improvement of some unemployment benefits measures for workers in the agriculture sector.
- Reduction in unemployment contributions related to temporary contracts, and additional concrete measures to improve unemployment protection.

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