

Government approves tax reform that will reduce taxes for 20 million taxpayers

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The government approved the tax reform, that includes a raft of measures to help reduce the tax burden for some 20 million taxpayers, above all those on low and medium incomes, as highlighted by the President of the Government, Mariano Rajoy, in his speech following the Council of Ministers to take stock of the first half of the year.

The three Draft Laws approved on Friday incorporate new aspects compared with the draft bill analysed by the Council of Ministers of 20 June, which include significant improvements for our citizens. For example, the exemption for severance pay will be increased to 180,000 euros and the 30% reduction will be reduced even if paid out in instalments. Capital gains received by taxpayers over the age of 65 will not be taxed when reinvested in pension annuities.

The future legislation also provides for the early redemption of contributions made to pension plans, assured savings plans, company savings plans and insurance contracts formalised with mutual insurance companies with more than 10 years of contributions, as well as the returns from such contributions. Furthermore, the minimum term for an individual systematic savings plan is reduced from 10 to 5 years.

Tax credits associated with negative tax returns for persons caring for those with disability or large families are increased. Specifically, in the event that the taxpayer cares for ascendants or descendants with disability, they may receive up to 1,200 euros for each person in this category.

Additionally the government has increased from 50% to 60% (percentage included in the draft bill) the reduction a landlord is entitled to for the return on real estate. The new legislation establishes a greater incentive for those companies making an extra effort in terms of R&D and improves the use of the new reserve for business capitalisation.

The legislation also includes a deduction for investment in theatre and musical shows, in addition to the extension to the subsidies for cinema productions and the deduction for innovating in animation and video games.

12.5% average Personal Income Tax reduction

The tax reform will give rise, in the case of Personal Income Tax, to a significant reduction in the tax burden. The number of tax brackets is reduced from seven to five. The minimum tax rate is reduced from 24.75% to 20% in 2015 and to 19% in 2016, while the maximum tax rate is reduced from 52% to 47% in 2015 and to 45% in 2016.

The President of the Government, Mariano Rajoy, recalled that salaried workers earning less than 12,000 euros per annum will not be taxed as from 2015. 72% of those making a tax return, who earn less than 24,000 euros per annum, will enjoy an average reduction in personal income tax of 23.47%, and of 19.34% for those earning less than 30,000 euros. Independent contractors earning less than 15,000 euros per annum will only have a withholding of 15% instead of the current 21%.

The Personal Income Tax reform also includes a tax break on savings and new instruments to boost medium- and long-term savings.

Reduction in corporate tax burden

The new Corporate Income Tax includes tax breaks and measures to drive the competitiveness of Spanish companies as well as simplified tax credits. The general rate of taxation will fall from 30% to 28% in 2015 and to 25% in 2016.

Furthermore, the tax reform introduces new tax breaks for very specific activities that contribute to economic growth and to the change in the productive model, such as for industry. It also includes a boost for patronage activities. The deduction for Personal Income Tax donations is increased from 25% to 30%