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Personal Income Tax policy choices of Spanish Autonomous Communities in 2016: a comparison with Canada of the rate structure

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Despite the differences, both Spanish as Canada subnational entities have the power to enact their own laws and regulate PITs differently by setting their own rates and establishing tax deductions. This paper will examine how ACs in Spain currently use their PIT powers and what are the main similarities and differences between the two systems.

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1. Introduction

Since 1997 Spain has achieved a substantial level of tax decentralization, which is now largely based on shared taxes (so-called “ceded” taxes). Ceded or shared taxes are formerly State-owned taxes that in 1997 became shared between the Centre and the non-foral Autonomous Communities (ACs, hereinafter)¹.

The legal design entails that ceded taxes still belong to the Central Government, which in theory could still withdraw the powers delegated to ACs on ceded taxes. In fact there are different types of ceded or shared taxes, depending on the level of autonomy acquired by the ACs. For some taxes (the “traditional ceded taxes”), such as Inheritance and Gift taxes or the Tax on Wealth, ACs obtain all the revenue accruing from the tax, they may administer it and also have some regulatory powers; in other cases, such as the Value Added Tax, Communities only obtain a percentage on the estimated revenue. Finally, in the case of the Personal Income Tax (PIT), ACs have some limited regulatory powers and obtain a percentage of the revenue (see different type of ceded taxes in Ruiz Almendral 2002 and 2012). Therefore, the way taxes are shared in the case of Spain substantially differs from the Canadian model, although there are some common elements (Ruiz Almendral and Vaillancourt 2006 and 2013) that make the comparison possible and relevant.

Under the Canadian system, both the Federal Government and the Provinces may establish taxes on income independently, something that would not be possible in Spain, since ACs cannot levy taxes which are similar to already existing taxes enacted by the Central Government². In Canada the current tax sharing of the PIT is entirely voluntary, and derives from the Tax Collection Agreements, under which most Provinces (Québec is the exception) agree to use the same definition of taxable income as the Federal Government, so that the tax base is the same. They may then design the system as they see fit, including establishing their own number of tax brackets and tax rates, low income tax reductions or refundable tax credits, etc.

The PIT sharing in the Spanish case starts with the Central Government regulating some aspects of the tax, while expressly allowing ACs to regulate,

¹ Until the reform enacted in 1996, which entered into force in 1997, the so-called “traditional” ceded taxes were State taxes whose yield was granted to Communities according to the taxes paid within their territory. Due to powers delegated by the State, Communities had also taken on the responsibility of administering these taxes. These ceded taxes were then a kind of tax transfer, by which some of the taxes owned and entirely regulated by the State accrued to and were administered by the Communities

² This limitation derives from the Spanish Constitution (mainly articles 133 and 157) and art. 6 of the Organic Law 8/1980.

with limitations, their tax rates and deductions³. ACs may then set their own rates, which will need to follow a progressive structure⁴ and will be limited to general income, excluding investment income in movable assets or capital gains, which are taxed using a national set of rates⁵. ACs may also establish minimum exempt thresholds and create deductions limited to certain family and personal circumstances and non-business investments. Should they infringe these limitations, the Spanish Constitutional Court may declare their legislation void⁶. Furthermore, the Central Government may legally decide to claim back tax powers on personal income taxes, as they have been voluntarily ceded or transferred by the Centre. Politically, this is of course highly improbable.

Another difference that must be pointed out is that while Canada and Spain both have Tax-to-GDP ratios below the 34% OECD average (33.5% in the case of Spain, and 31.7% for Canada)⁷, revenues from personal income taxes represent 11.75 % of GDP in Canada and 7.22% in Spain⁸. In comparison to general tax revenues, Taxes on personal income represent 37% in Canada and 21% in Spain⁹. Nevertheless, on average, tax revenue as a percentage of GDP in Spain is below the 38.7% average for the European Union.

Despite the differences, in both systems subnational entities have the power to enact their own laws and regulate PITs differently by setting their own rates and establishing tax deductions. This paper will examine how ACs in Spain currently use their PIT powers.

Until 2009, ACs had the possibility to set their own rates, but did not have to do it in order to obtain a percentage of the PIT revenues. There was then a default rule by which the central Government regulated a tax structure (rates and brackets) that would be applied to ACs. This meant that ACs had no incentives to legislate and establish their tax rates, and they could avoid the obvious political cost of setting the rates and still obtain the revenue. Predictably, ACs largely preferred not to alter the tax rates, which always

³ As outlined in Law 22/2009.

⁴ There is no such progressivity requirement in Canada; see <http://www.fin.gc.ca/fapt-aipf/fapt2-eng.asp>; for provincial PIT requirements stated as “Provinces face minimal constraints under the tax-on-income model. Provinces are required to use the same taxable income base as the federal government”. Indeed from 2001 to 2016 Alberta used its PIT freedom to levy a flat tax (single rate of 10%) PIT thus with no rate progressivity.

⁵ In Canada, all capital income such as interests, dividends or capital gains (50% inclusion rate in 2016) are included in taxable income for both the federal and provincial governments.

⁶ As has already happened, among other cases when Andalucía established deductions for personal entrepreneurs (see C.C., Case 161/2012, 20 September).

⁷ OECD Revenue Statistics, 2017 (2016 data).

⁸ OECD (2017), Tax on personal income (indicator). doi: 10.1787/94af18d7-en (Accessed on 23 November 2017). The data includes all government levels.

⁹ Spain has, among others, much higher revenues from social security contributions, which amount to 34% per cent of tax receipts, while in Canada Social security contributions represent 15% of total tax receipts. OECD Revenue Statistics, 2017 (data for 2016).

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The process of Personal Income Tax decentralization started in 1994, when a 15% of the PIT total collection in each AC was assigned to finance directly their expenditures. Then, progressively, new competences were transferred to the ACs in the PIT area. But only in recent years we could say that in Spain the effective use of PIT tax autonomy (including not only tax cuts or higher deductions but also cuts of deductions or increased tax rates) is a recent decision by ACs.

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entail a political burden, and establish tax deductions to customize the tax burden of their residents (Ruiz Almendral and Vaillancourt 2006).

In 2009, after a general negotiation for a new financing model, the formula was changed in order to require ACs to make an explicit choice in their annual finance law as to the taxation of the 50% of the PIT allocated to them. After the 2009 change ACs must choose the number of brackets, the boundaries of the brackets and the rate applicable to each income bracket.

Since 2009 ACs have started to set their own PIT rates for the first time. This is both the result of the 2009 rule change and the difficulties to get other public revenues during the years of the Great Recession.

We will examine what the ACs explicit choices have been and see how they compare to what Canadian Provinces have done¹⁰. Before 2000, these provinces other than Québec were required to use a surtax approach that saw provinces collect personal income tax as a % of federal taxes (tax on tax) using the same number of brackets, boundaries of brackets and progressivity structure. Since 2000 they can and have chosen to use a tax on income approach as noted above. Thus they must make similar choices to those of ACs for their PIT since 2000 (Guimond and Vaillancourt, 2013).

2. The process in Spain: ACs Legal Powers on PIT

In the Spanish process of decentralization, which started shortly after the adoption of the 1978 Constitution, the first step was the allocation of the main responsibilities to the ACs in the field of public services and the relevant expenditure chapters. Starting with some general powers, the devolution process would end with the transfer of the health care services in 2001, just when the Central Government and ACs approved a new financing system for all the so-called Common Communities system. As a result, ACs currently manage about 35 per cent of public spending¹¹.

But the transfer of expenditure responsibilities had to be completed with the decentralisation of powers to raise revenue, thus addressing the substantial vertical fiscal imbalance of the system. In theory, from the beginning of decentralisation taxing powers were recognized as a fundamental part of AC autonomy, an idea that the Spanish Constitutional Court reinforced in several

¹⁰ We will only deal with the so-called common system ACs, leaving out Basque Country and Navarra, that have a different system altogether. We will also leave out, for the same reason, the case of Quebec.

¹¹ In Canada, provinces account for about 50% of public spending.

cases (such as case 37/1987). Thus, from a legal perspective, ACs did have the option to establish their own taxes. However, partly to avoid the political costs, and partly for legal reasons, since new taxes established by ACs may not legally tap the same sources of ability to pay as the Central Governments', own independent taxes have never been a relevant source of revenue¹². This explains why the option to share taxes has been generally regarded as the best way to enhance ACs' fiscal responsibility (Ruiz-Huerta, 2015.b).

The first step to share taxes concerned the PIT, and took place in 1994, when the central socialist government decided to include, among the sources to finance the decentralized services, a percentage (15%) of the PIT collected in each AC. This system did not in fact entail an actual increase of ACs tax autonomy because it was only a limited tax sharing system, by which ACs obtained a rather small percentage of the national PIT collection. It was then effectively a type of transfer, since ACs had no leeway to alter any element of the tax, or manage it in any way¹³. Even so, this was the first time that one of the main national taxes was explicitly used to finance ACs' expenditures and it opened the door to linking (more intensively in the future) Personal Income Tax to ACs, thus enhancing their accountability¹⁴.

In the 1996 reform, which entered into force in 1997, the tax sharing mechanism of the PIT was maintained and reinforced with the so-called "*PIT regional portion return*". That reform allowed ACs to obtain resources through a fixed percentage of the tax base (15%), getting as well a normative (legal) capacity to set their own tax rates within certain limits (+/- 20% of the central government rate), as well as to apply some autonomic deductions linked to personal and family circumstances but not to "business" investments. Thus 30% of the national PIT was shared with ACs; 15% based on national regulated PIT and 15% based on AC regulated PIT.

The system was reformed again in 2001, in order to increase the scope of the tax sharing system. Now the "*PIT regional portion return*", increased to 33% of the tax base and the other part (15% of regional collection) was suppressed. Thus 1/3rd of the national PIT was shared based on AC regulated PIT. The reform included also a tax sharing of the VAT (35%) and of Excise taxes (40%)¹⁵. Additionally, the 2001 system gave the ACs new legal

¹² They were also, and continue to be, a source of much conflict, as the Central Government often challenges ACs own taxes.

¹³ The Spanish National Parliament had all the legal powers and the Central Tax Administration Agency (Agencia Estatal de Administración Tributaria -AEAT) was responsible to collect the tax levied in the whole country

¹⁴ The support of CiU (the nationalist Catalan party) to the socialist government in Parliament to adopt this measure in 1993 was a good expression of the demand for more tax autonomy and its increasing possibilities in future reforms, as it thus happened. See Ruiz-Huerta (2015.a)

¹⁵ The tax collection of those taxes was distributed among ACs on the basis of territorial consumption statistics.

responsibilities: They could change more freely their tax rates, although the progressive structure of PIT taxation had to be maintained, and they could change (+/- 50% of the central government amount) the general deduction for primary residence purchases.

Despite the above-mentioned reforms, the allocation of regulatory tax powers to the ACs, which are fundamental tools to guarantee the principle of autonomy and accountability,¹⁶ did not automatically translate into a higher level of tax autonomy. Before the great recession most ACs had slightly increased tax rates on other ceded taxes, namely taxes on property transfers. Nevertheless, taxing powers on direct taxes, such as the PIT, but also Gift and Inheritance taxes, were mostly used to decrease the overall tax burden¹⁷. In the case of the PIT, ACs established tax deductions on different personal and family circumstances (Ruiz Almendral and Vaillancourt 2006). The only AC who decided to change the tax rates before the Recession struck was the AC of Madrid¹⁸.

The overall intergovernmental finance system in Spain was last reformed in 2009. This entailed, among other elements, a substantial increase and consolidation of the tax sharing mechanism as the main source of AC financing. The new, increased, percentages of tax sharing were 50% of PIT and VAT and 58% of Excise Taxes. This change meant a greater visibility of ACs taxing powers, as it was a good way for citizens to see that the Central Government and the ACs did share the main taxes¹⁹. Furthermore, under the new model ACs would obtain greater autonomy to change some elements of the shared taxes within their territory; they could then modify (up to a maximum of 10% of the central government taxable income²⁰) non-taxable personal and family income and they got more capacity to change tax rates; the key change was that, since 2010, the supplementary tax rate (the one established automatically as a standard tax rate when the AC did not approve its own tax rate) was suppressed, so all ACs were forced to pass legislation establishing the tax rates, or else lose the revenue since the AC PIT rates would then be zero.

Tax revenues plummeted during the economic crisis, which forced ACs to increase their tax rates as a necessary way to finance their public services. This

¹⁶ “Corresponsibility”, if we use the Spanish word applied to explain this principle in the autonomic debate.

¹⁷ In the case of Gift and Inheritance taxes, ACs have used their powers to substantially decrease the tax burden, so that the tax is almost non-existent in some Communities, like Madrid or Valencia.

¹⁸ That was the decision implemented by the Autonomous Community of Madrid, which chose to decrease the autonomic PIT tax rate.

¹⁹ The fifty/fifty distribution only could be assured when this alternative was applied (the so-called “base year”) because the ACs, as well as the Central Government could change freely their tax rates and deductions and, in that case, the tax liability paid by taxpayers to both tax administrations normally would be different.

²⁰ In a similar way, in Canada provinces that use the harmonized sales tax (HST) can deviate up to five % from the federal taxable base through the use of exemptions.

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The use of their PIT tax power by the ACs in Spain shows a fair amount of diversity among them, higher number of brackets as an average related to the Central Government, higher floor than the one of the central government for the highest income bracket and rather different among ACs and a higher tax rate for the highest income bracket than the central government. There seems to be a certain relationship between the use of a relatively higher maximum PIT rate by ACs and the use of a higher floor for this maximum rate.

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was partly due to the very design of the transfer system, calculated using interim data, which were then later adjusted once taxes had been completely collected. The economic projections that were the basis for the 2009 central government budget were overly optimistic²¹. This created a domino effect because these same optimistic projections also served as a basis for estimating the amount of tax revenues to be transferred to ACs). The result was that ACs received in 2009 larger transfers than they were entitled to, once total taxes were collected, and the full impact of the crisis, and the ensuing loss of revenue, was evident two years after it fully began (2011). The result derived from all this was that ACs had to send back a substantial part of the transfers they had received²². This naturally created an incentive to use their taxing powers, as well as to increase their indebtedment.

ACs have continued to establish tax deductions (until 2006, see Ruiz Almendral and Vaillancourt, 2006), mostly on personal and family circumstances. In this paper, we focus only on tax rates. Although tax deductions do impact the general progressivity of the PIT, in the case of Spain the impact is minimized because most deductions are quite limited, both because they are small amounts (typically much less than 1,000 € a year) and also because they tend to be means-tested, leaving out a majority of taxpayers.

So, we could say that in Spain the effective use of PIT tax autonomy (including not only tax cuts or higher deductions but also cuts of deductions or increased tax rates) is a recent decision by ACs.

3. The use of PIT powers by common ACs in the recent period

In order to assess how ACs use their PIT powers, Table 1 presents for 2016 three dimensions of the use of PIT tax powers by ACs: number of brackets, minimum amount of the lowest (non-zero) and highest tax bracket and tax rates associated with these two brackets. The table shows a fair amount of diversity:

- The ACs number of brackets is higher than the number of central government brackets in 11 out of 15 ACs²³ with the average number almost equal to seven rather than five.

²¹ In the first months of 2008 all public bodies, national and international, had forecasted positive growth for 2009. The Spanish Constitutional Court ruled on the 2009 budget in case 206/2013, 5 December. People's Party, claiming that the budget had been built on false premises, had brought on the case. The Court quoted IMF and OECD reports forecasting an average of 1 per cent growth for 2009. The actual data was -3,7 GDP (Eurostat data).

²² A number of bail out mechanisms were put in place to help ACs finances, but we will leave those out of this paper.

²³ As stated above, we are leaving out the two Foral Regime ACs (Basque Country and Navarra).

- Only three ACS use a floor for the lowest non zero bracket different from the central government one, and only one AC (Balearic Islands) starts taxing below that level of income; Catalonia and Valencia have the same lowest non zero bracket floor, more than 5.000 euros over the central one.
- Eight ACS use a floor higher than the one of the central government for the highest income bracket; this can explain why the coefficient of variation (CV), a measure of the degree of differences between values of a given variable, is much higher for this variable than for the preceding one.
- Eight ACs use the same rate as the central government for the lowest income bracket and only Catalonia and Valencia are somewhat different from the clustering around the 9-10% rate.
- Eleven ACs have a higher tax rate for the highest income bracket than the central government; two have the same rate and another two (Castilla León and Madrid) a lower one.
- The difference between the maximum and the minimum rates is highest in La Rioja, Cantabria and Balearic Islands while the spread between the lowest and highest income floor is highest in the Balearic Islands and lower than that of the central government in only two “common” ACs (Madrid and Castilla y Leon). However, three other ACs have the same rate that the central government (all those ACs were governed by the Peoples’ Party in 2016, which was also the party in power in the Central Government).
- There seems to be a relationship between the use of a relatively higher maximum PIT rate by ACs and the use of a higher floor for this maximum rate. The four ACs with a maximum rate lower than or equal to 22.5% (Madrid, Castilla y León, Castilla la Mancha and Galicia) have an average top rate floor of 56 700 euros while the five ACs with a top rate of 25,5% (Andalusia, Asturias, Cantabria, Catalonia and La Rioja) have an average top rate floor of 136 000 euros.

Table 1 Number of brackets, for lowest and highest bracket income floors and rates and two progressivity measures, Spain, 2016, fifteen common ACs

Autonomous communities	Number of brackets (1)	1st non zero bracket minimum income euros(2)	Highest bracket minimum income euros(3)	lowest tax rate % (4)	highest tax rate % (5)	Spread between highest and lowest tax rates (Rate Progressivity (6) (5)÷(4))	Spread between the lowest and highest income floor (7) (3)÷(2)
Andalusia	8	12450	120 000	10	25,5	2,55	9,64
Aragon	10	12450	150 000	10	25	2,50	12,05
Asturias	8	12450	175 000	10	25,5	2,55	14,06
Cantabria	7	12450	90 000	9,5	25,5	2,68	7,23
Catalonia	6	17707,2	175 000	12	25,5	2,13	9,88
Castilla y León	5	12450	53 407	9,5	21,5	2,26	4,29
Castilla La Mancha	5	12450	60 000	9,5	22,5	2,37	4,82
Madrid	5	12450	53 407	9,5	21	2,21	4,29
Valencia	6	17707,2	175 000	11,9	23,48	1,97	9,88
Extremadura	9	12450	120 200	10,5	25	2,38	9,65
Galicia	7	12450	60 000	9,5	22,5	2,37	4,82
Balearic Islands	9	10000	175 000	9,5	25	2,63	17,50
Canary Islands	6	12450	90 000	9,5	24	2,53	7,23
La Rioja	7	12450	120 000	9,5	25,5	2,68	9,64
Murcia	5	12450	60 000	10	23,5	2,35	4,82
Mean	6,75	12987,6	108 563	9,99	23,97	2,40	8,36
C.V. (Coefficient of Variation)	0,24	0,16	0,45	0,08	0,07		
Central	5	12450,0	60000	9,5	22,5	2,37	4,82

Source: Compiled by the authors from *Tributación Autónoma Medidas 2016 Capítulo IV*. <http://www.minhfp.gob.es/es-ES/Areas%20Tematicas/Financiacion%20Autonomica/Paginas/Tributacion-autonomica-medidas-2016.aspx>
 Note: C.V.= standard error / mean

What reasons could explain these various choices?

Obviously the economic potential of ACs and the political preferences of the governing parties play a major role, although, as shown in Table 1, there are rich and poorer ACs adopting similar measures. Technical aspects may also have some impact. Examining table 1 one can ascertain that a greater number of brackets is linked to a higher income floor for the highest bracket and somewhat linked to a higher tax rate while there is no relationship with these two indicators for the lower bracket.

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In the case of Canada, the number of brackets decided by provinces are slightly lower than the Federal figure and much lower than the Spanish number, most provinces use a lower floor for the lowest and the highest income bracket than the federal one, as well as a lower tax rate for both brackets; besides, the average tax progressivity is slightly lower among provinces.

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A preliminary conclusion is that all ACs have used their legal power to get more resources from 2011 onwards, when the consequences of the crisis forced ACs to raise more resources; this, although it was mainly a consequence of the economic crisis, made more visible their tax autonomy.

On the other hand, the higher average number of brackets among ACs compared to the central government could reflect their desire to show a larger progressivity through the tax rates schedule; this coincides with a higher average maximum tax rate compared to the central government²⁴.

Nevertheless, from an efficiency point of view, more brackets could be an incentive for individual taxpayers to avoid higher marginal tax rates by choosing lower levels of work effort.

On the other hand, as far as the average ACs rate of progressivity is as well higher than the central government rate, it seems that ACs have chosen a criteria for more formal equity²⁵. It is also interesting to note that the so-called rate of income progressivity (column 7 in Table 1) is lower in the ACs governed by the Popular Party that year (2016), and similar to the central one.

4. Comparing Spain to Canada

How does the situation in the Spanish fiscal federation compare to what one observes in other federations?²⁶ Ruiz Almendral and Vaillancourt (2012) have presented information that leads us to conclude that a natural comparison point for Spain is Canada since: 1) Canada and Spain have reasonably comparable numbers (respectively nine and fifteen) of sub national units that have a common tax system and collection of PIT by the central government; 2) federations such as the United States or Switzerland have a larger number of sub national units without central collection of PIT for any of them; 3) German Landër have no PIT policy powers although they do collect taxes for the federal government. We thus present in table 2 the same information found in table 1 but for Canada. It shows that:

- The number of brackets is lower than the number of federal government brackets in three out of nine CRA (Canada Revenue Agreement) provinces with the average number slightly lower than the federal figure and much lower than the Spanish number;

²⁴ As shows Table 1, eleven ACs decided to apply a maximum tax rate higher than the central one.

²⁵ One should recall that the tax rate is not the only instrument to increase progressivity. There are other relevant ways as the rules for determining the tax base, the exempted minimum amount, or the use of deductions or fiscal benefits

²⁶ Spain is not a Federation in name, but the level of decentralization makes it comparable to other Federal countries.

- Most CRA provinces (seven) use a floor for the lowest non zero bracket lower than the federal one;
- Only two CRA provinces (Ontario and Alberta, both with high level of income per capita) use a floor higher than the one of the federal government for the highest income bracket;
- All CRA provinces use a lower rate than the federal government for both the lower and higher income bracket²⁷.
- The progressivity of the rates and bracket spread is highest in Ontario. Average provincial rate progressivity is slightly lower than the federal one.

Table 2 Number of brackets, for lowest and highest bracket income floors and rates and two progressivity measures, Canada, 2016, nine CRA provinces (CVs)²⁸

Provinces	Number of brackets	1st non zero bracket minimum income euros	Highest bracket minimum income euros	lowest tax rate %	highest tax rate %	Spread between highest and lowest tax rate (Rate Progressivity)	Spread between the lowest and highest income floor
Newfoundland & Labrador	5	8802	175 700	7,70	15,30	1,99	19,96
Prince Edward Island	4	7708	98 143	9,80	18,37	1,87	12,73
Nova Scotia	5	8481	150 000	8,79	21,00	2,39	17,69
New Brunswick	5	9758	150 000	9,68	20,30	2,10	15,37
Ontario	7	10011	220 000	5,05	20,53	4,07	21,98
Manitoba	3	9134	67 000	10,80	17,40	1,61	7,34
Saskatchewan	3	15843	127 430	11,00	15,00	1,36	8,04
Alberta	5	18451	300 000	10,00	15,00	1,50	16,26
British Columbia	5	10027	106 543	5,06	14,70	2,91	10,63
Mean	4,67	10913	154 980	8,65	17,61	2,04	14,20
CV (Coefficient of Variation)	0,26	0,34	0,46	0,26	0,15	xx	xx
Federal	5	11474	200 000	15,00	33,00	2,2	17,43

Source: Tables 3, A-1 and A-2 Vaillancourt et al. (2016)

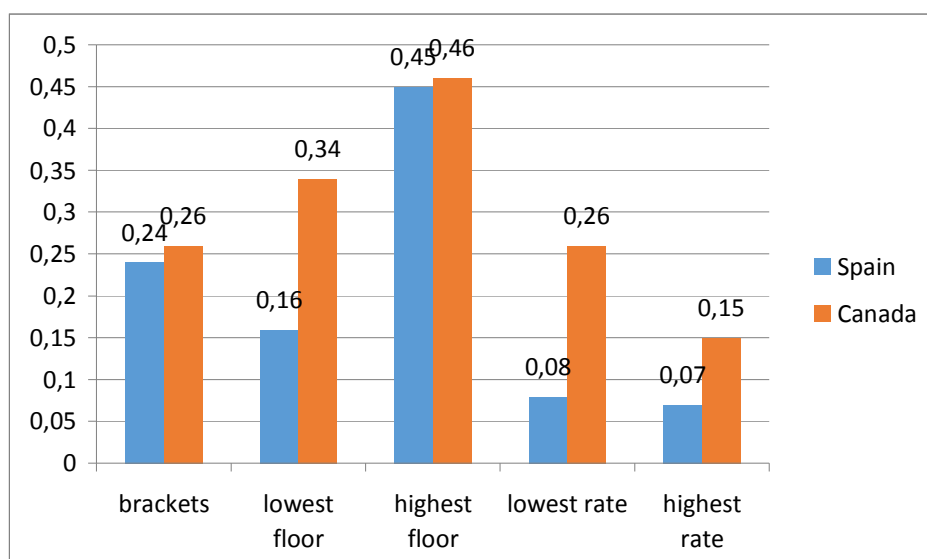
Figure 1 compares Spain and Canada. Canada shows higher diversity for all five measures but particularly so for the lower income bracket. Some of these differences may be the result of the fact that as of 2016 Canadian provinces

²⁷ It must be remembered that the CRA is not engaged in tax sharing as in Spain. It is collecting provincial PIT that need no approval from the central government as personal income is constitutionally taxable by both the federal and provincial government

²⁸ As Quebec implements its own PIT, out of the CRA, this province has not been included in the table.

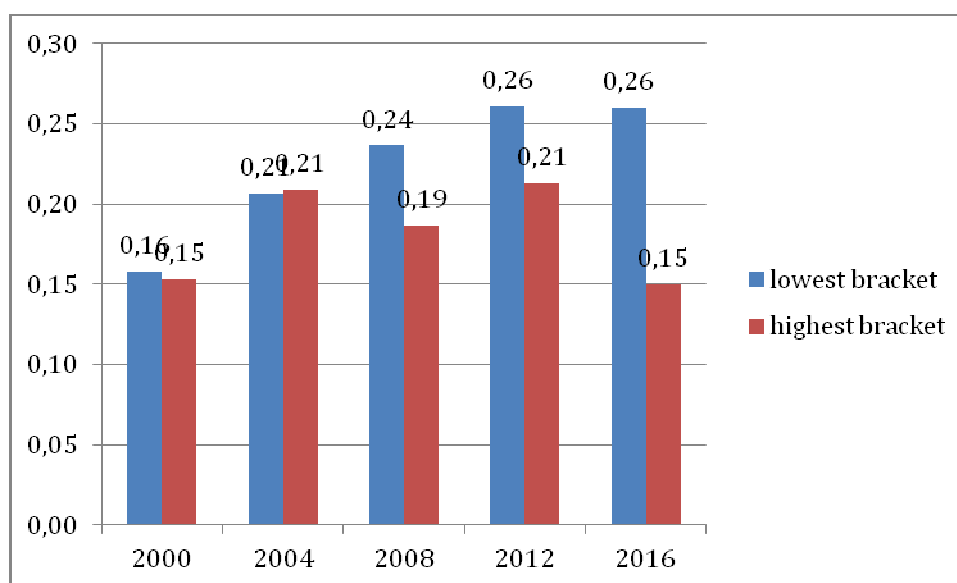
have had 16 years of significant tax autonomy while Spanish ACs have had only six²⁹. Figure 2 shows that at least in the case of the tax rate for the lowest bracket one can see a 50% increase in the CV from 2000 to 2016 for Canadian provinces.

Figure 1. Comparing the use of personal income tax autonomy by Spanish autonomous communities and Canadian provinces, five indicators, 2016



Source: Tables 1 and 2

Figure 2 CVs of lowest and highest bracket tax rates, Canada, nine CRA provinces, 2000-2004-2008-2012-2016



Source: Vaillancourt and Bird, 2016

²⁹ Although the last reform, as explained before, was implemented in 2009, only 3 regions introduced different tax rates in 2010.

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Overall, common ACs have a more similar PIT system than CRA provinces, probably as a consequence of the shorter period of application of their tax autonomy; the larger differences can be seen in the lowest floor and the lowest rate. Nevertheless, it would be necessary to complete this analysis with a study of the various exemptions and deductions available.

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5. Conclusion

PIT tax autonomy was increased in 2010 for ACs in Spain. This paper examines what use they have made of it and compares it to the use of tax autonomy by Canadian provinces that saw a similar increase in 2000.

The introduction of different PIT tax rates amongst ACs is rather new in Spain and its effective use is mainly a consequence of the difficulties associated with the recent economic crisis and the need for more resources to cover essential public services in ACs (in particular Healthcare and Education, which represent the largest part of their budget). In general terms, both the ACs' number of brackets and the tax rate progressivity are higher than the Central Government's. Although there are not much differences related to the application of their PIT, the main differences can be found on the decisions with respect to the highest bracket and the minimum income.

With regard to the Canadian case, the number of brackets applied by Provinces is lower than the Federation's, and so is the progressivity rate and income indicators, which are lower than the central ones.

Overall, common ACs have a more similar PIT system than CRA provinces, as figure 2 shows. All the CVS are higher for Canada, the larger differences being for the lowest floor and the lowest rate.

As we noted before, the analysis of only the tax rates schedules does not fully account for the actual degree of PIT progressivity. It would be necessary to complete this with a study of the various exemptions and deductions available, both by simply describing them and by taking into account their take-up rate by taxpayers. But while work remains to be done to fully understand the impact on tax progressivity of greater autonomy of ACs in terms of the PIT, our study provides one of the first analysis of the Spanish case and a relevant comparison to Canada albeit for only the tax rates.

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POLÍTICA COMPARADA

Motivación

Política Comparada, del Laboratorio de la Fundación Alternativas, analiza la realidad política, económica y social española desde una perspectiva comparada. El propósito de la colección es observar cómo se sitúa España en el contexto de las democracias avanzadas, aprender de la experiencia de otros países, así como propiciar un debate informado sobre cómo afrontar mejoras. En esta serie intervendrán académicos internacionales de primera línea que, con rigor y pedagogía, expondrán reflexiones útiles para todos los que se interesen por la política.

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