

## Tax revenues in Spain in 2021: a very vigorous recovery

According to the glimpse of the tax close published by the Ministry of Finance, tax revenues in 2021 were surprisingly strong and have exceeded the expectations set out in the 2021 General Government Budget, despite GDP growth for the year falling below the government’s expectations.

### Tax revenues have been buoyant almost across the board

In particular, revenues grew by 15.1% year-on-year in 2021 and by 5% compared to 2019. To put these figures in context, the average year-on-year change in the period 2000-2019 was 4.8%. The total figure was 1,275 million euros more than that projected in the 2021 General Government Budget. These data suggest that the 2021 budget deficit – which we will find out at the end of March – could be below the government’s forecast of 8.4% of GDP.

What does the breakdown by type of tax tell us? The big surprise has come from corporation tax revenues, which are 4,900 million above the level projected in the 2021 General Government Budget. Specifically, revenues from this tax increased by 10,770 million euros compared to 2020 (+67.9%) and by 2,900 million euros compared to 2019 (+12.2%). This strong rebound is explained by the increase in business earnings compared to 2020, a year in which companies had recognised significant provisions due to the pandemic, although it was also driven by lower refunds.<sup>1</sup> The exemptions and moratoria implemented in 2020 in response to the pandemic also help to explain the considerable rebound in corporation tax revenues in 2021. In particular, the earnings of consolidated business groups up to September 2021<sup>2</sup> were practically double those of 2020 and were similar to those of 2019. In the case of large corporations not belonging to consolidated groups, meanwhile, earnings grew by around 30% year-on-year up to September, placing them slightly above those of 2019. Finally, among SMEs which report based on their full year results, earnings have increased by more than 30% and are now more than 4% higher than those recorded in 2019.

In the case of personal income tax (IRPF), revenues increased by 6,570 million compared to 2020 and by 7,650 million *versus* 2019,<sup>3</sup> an improvement of 350 million

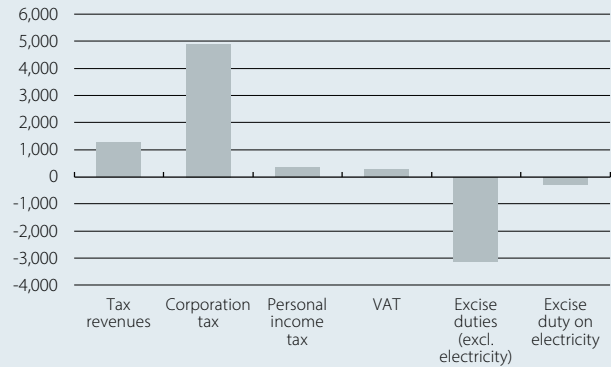
1. The reason for this is the significant refunds that were paid out in 2020 as a result of the high number of applications received during the tax return campaign for the 2018 tax year (returns filed in 2019, with refunds mostly paid out in 2020).

2. Not counting extraordinary operations.

3. In 2020, the impact of the pandemic was particularly damaging for sectors with below-average wages and effective tax rates, which reduced the impact that the crisis had on personal income tax revenues.

### Spain: difference between actual and projected tax revenues in 2021

(EUR millions)



Note: Projections according to the 2021 General Government Budget.

Source: CaixaBank Research, based on data from the Ministry of Finance.

over the budget projections. This is largely explained by the strong performance of employment in 2021 – not in vain, pay-as-you-earn tax withheld on employment income increased by 6.1% compared to 2020, *versus* a 5.6% growth in employee wages in 2021.

VAT revenues, on the other hand, increased by 9,156 million compared to 2020 and by 955 million *versus* 2019, resulting in a slightly higher figure than that projected (+270 million euros). This category of revenues thus grew by 1.3% compared to 2019, in contrast with the fall in nominal consumption (–6.3%). This discrepancy could be explained, in part, by a possible upturn in the submerged economy. Another factor that has contributed to the strong performance of VAT revenues has been the buoyancy of new home sales, together with the increase in home prices in 2021.

In contrast, revenues from excise duties fell compared to 2019, especially the duties on hydrocarbons (–6.3%) and electricity (–21.1%). The latter’s decline is the result of the electricity tax having been cut from 5.11% to 0.5% in September. Despite such a large reduction, the rise in electricity prices has led to revenues from this tax being only 290 million lower than in 2019.

Thus, income-related taxes (especially corporation tax and, to a lesser extent, personal income tax) have been the major driving force behind the strength of tax revenues, which have exceeded forecasts for the first time since 2010.

### Tax revenues grew more than GDP

At this point in the article, no one doubts the strength of the recovery in tax revenues in 2021. This conclusion is only underscored further when we compare the year-on-year growth of these revenues in 2021 (15.1%) with that

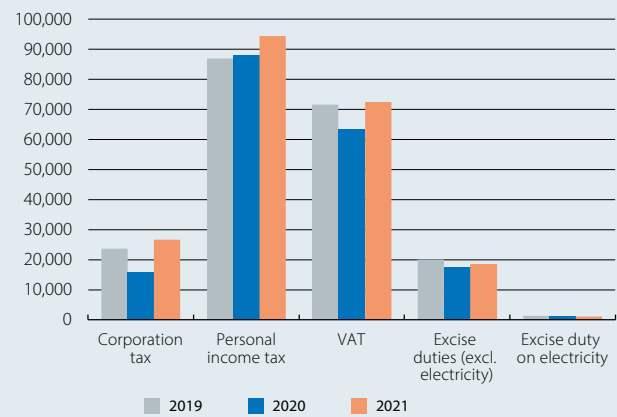
of nominal GDP (7.2%). In other words, tax revenues grew twice as much as GDP did (the historical ratio between GDP growth and tax revenues is 1 to 1.2).

This behaviour is consistent with a study by ECB economists,<sup>4</sup> who estimated that Spain is the euro area economy in which public-sector revenues react in expansive periods, with the historical ratio between GDP growth and tax revenue growth increasing from 1.06 to 1.8.

In short, tax revenues have enjoyed a vigorous recovery in 2021. The main architects have been personal income tax and VAT, driven by the economic recovery, and corporation tax, which has grown well above expectations due to the rebound in corporate earnings following the significant provisions recognised by companies in 2020 as well as due to lower refunds.

*Javier Garcia-Arenas*

**Spain: tax revenues**  
(EUR millions)



Source: CaixaBank Research, based on data from the Ministry of Finance.

4. See G. Koester and C. Priesmeier (2017). «Revenue elasticities in euro area countries». ECB Working Paper Series.