

AIReF Technical Paper

**AIReF UPDATES ITS ANALYSIS ON FACTORS THAT
DRIVE GROWTH IN TAX REVENUE**

- **The Independent Authority for Fiscal Responsibility (AIReF) updates its Technical Paper on the variability of tax revenues, in which it maintains its conclusions on tax collection growth in 2021 and 2022**
- **It notes that growth in tax collection was more contained in 2023 than in the previous two years but estimates that the contribution of prices to growth intensified**
- **For 2024, it estimates that inflation will continue to be the main driver of growth in revenue, albeit with a smaller contribution than in 2023**

The Independent Authority for Fiscal Responsibility (AIReF) today published the update of the Technical Paper on the variability of tax revenue since 2019, in which it maintains its conclusions on tax collection growth in 2021 and 2022 and points out that, in 2023, although growth in tax collection was more contained, the contribution of prices to growth intensified, accounting for more than half of the increase in revenue. For 2024, AIReF estimates that inflation will continue to be the main driver of growth in revenue, although it will do so with a smaller contribution than in 2023.

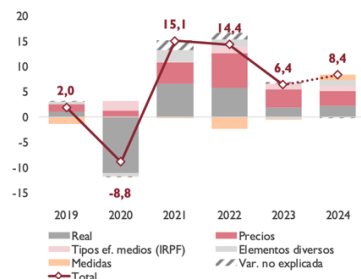
The analysis for 2021 and 2022 is updated with the data on taxable income and tax accrual bases and the revision of the Spanish National Accounts series published by the National Statistics Institute (INE) in September 2023 and AIReF's latest methodological improvements. These updates produce changes in the results of the variability of the different factors but maintain the main conclusions of the Technical Paper published in 2023, showing that 43% of the tax collection in 2021 was explained by the real component, which boosted both direct and indirect taxes. In 2022, in contrast, the price component was the main factor, reaching 47% growth, with a particular impact on VAT.

In 2023, although tax collection growth was more contained, the contribution of prices to growth intensified. Of the 6.4% increase in total tax collection, 85% was explained by macroeconomic variables, with a higher contribution from the price component (55%) compared with the real component (29%). Tax collection was also boosted by the average Personal Income Tax rate, which increased as a result of the rise in average employee compensation, contributing 19% to revenue growth.

In contrast, regulatory measures subtracted 4% from growth as some measures partially offset others. In a negative direction, the reductions in earnings from work and the regional Personal Income Tax rate were noteworthy, which offset the rise in the tax rate. In a positive direction, the limitation to 50% offsetting for intra-group tax losses under Corporate Income Tax was noteworthy, among others. Furthermore, other sundry items

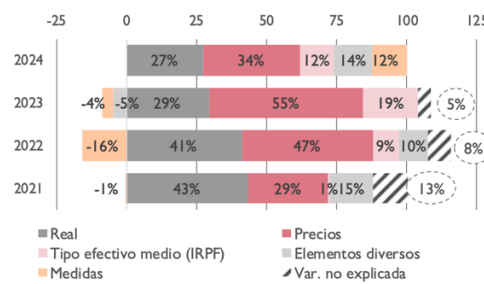
subtracted 0.1 points from the growth in tax collection, mainly due to the settlement of Corporate Income Tax.

GRÁFICO 1. EVOLUCIÓN DE LOS INGRESOS TRIBUTARIOS 2019-2023 (%VAR)



Fuente: AEAT, estimaciones y elaboración AIReF

GRÁFICO 2. DISTRIBUCIÓN DEL CRECIMIENTO DE LOS INGRESOS TRIBUTARIOS 2021-2024



Fuente: AEAT, estimaciones y elaboración AIReF

Regarding VAT and Corporate Income Tax, part of the variability cannot be explained by any factor, which peaked in 2021 and progressively decreased in 2022 and 2023. In the case of VAT, the unexplained variability arises from the gap between the evolution of final spending subject to VAT and domestic demand, which manifested with the outbreak of the pandemic and increased in 2021. However, this gap has narrowed since the previous analysis due to incorporating the revised Spanish National Accounts data published last September.

In the case of Corporate Income Tax, the unexplained variability is a consequence of the separation between taxable income and the gross operating surplus. It mainly shows the difficulty of reflecting certain peculiarities of the tax, such as the double taxation exemption and the offsetting of negative tax bases, in economic variables, although this has been reduced with AIReF's methodological improvements. The unexplained variability of Corporate Income Tax peaked in 2021 and progressively decreased until 2023.

AIReF's forecasts place tax collection in 2024 at 8.4% higher than in 2023. Although a lower contribution is estimated for the price factor than in the previous year, it will once again be the main driver of tax collection and, together with the increase associated with Personal Income Tax rates, will contribute 47% of the change, almost half of the estimated growth. The real factor and other taxation elements are expected to make a greater contribution, with a total of 41% combined. For their part, regulatory measures will contribute an additional 12% increase, mainly due to the partial withdrawal over the course of 2024 of lower tax rates established to mitigate price rises.