

CATALONIA BACKGROUND INFORMATION [SERIES E / 2014 / 5.1 / EN]

Date: 09/09/2014

CURRENT FINANCING SYSTEM OF THE SPANISH AUTONOMOUS COMMUNITIES

This document aims to explain the unequal distribution between the Spanish Autonomous Communities, due to the current financing system.

The financing system comprises the following resources:

- Taxes assigned (100% transferred and partially transferred)
- Guarantee Fund for Basic Public Services (GFBPS)
- Global Sufficiency Fund (SF)
- Convergence Funds: Competitiveness Fund and Cooperation Fund

100% transferred taxes to ACs

The Autonomous Communities (ACs) are assigned the entirety of the following taxes: wealth, inheritance and gift tax, property transfers and stamp duty, gaming taxes, means of transport and the autonomic tranche of the tax on hydrocarbons. For this set of taxes the ACs have the power to modify certain elements and, except for the tax on means of transport, the autonomic tranche of the tax on hydrocarbons and wealth tax, they are handled by the Catalan Tax Agency.

Partially transferred taxes to the ACs

- Autonomic tranche of Personal Income Tax equivalent to 50%
- 50% of VAT
- 58% of special taxes (except the electricity tax which is 100% assigned)

Of these taxes partially assigned, the AC may decide certain elements of Personal Income Tax. These are taxes managed by the State Tax Administration and are received in the form of advance payments of the State settled two years in arrears.

Initial Situation

An evaluation in accordance with the tax capacity of the ACs is used. This is computed as a basket of the resources assigned to the ACs. All calculations are made with in uniform, compliant nature so as to establish a comparison.

Here it should be indicated that two of the AC, the Basque Country and Navarre, are omitted from the study because they benefit from a special fiscal regime due to their historic (“foral”) tradition.

Tax capacity of the AC, 2011

	€m	€/pop	Index	ranking
Madrid	17,041	2,626	134.2	1
Balearics	2,651	2,381	121.7	2
Catalonia	17,578	2,331	119.1	3
Aragon	3,020	2,243	114.6	4
Cantabria	1,328	2,239	114.4	5
Asturias	2,257	2,087	106.6	6
La Rioja	652	2,019	103.2	7
Castile and León	5,081	1,986	101.5	8
Valencia	9,387	1,834	93.7	9
Galicia	4,987	1,784	91.2	10
Castile-La Mancha	3,537	1,672	85.4	11
Murcia	2,403	1,635	83.5	12
Andalusia	13,173	1,564	79.9	13
Extremadura	1,654	1,491	76.2	14
Canary Islands	1,758	826	42.2	15
TOTAL	86,506	1,957	100	

Catalonia exceeds the average of the ACs under the common regime by 19.1%. It is the third AC in tax generation per inhabitant, after Madrid and the Balearics.

STEP 1: GUARANTEE FUND FOR BASIC PUBLIC SERVICES (GFBPS)

This is a fund which seeks to ensure that each AC receives the same resources per inhabitant adjusted to finance the essential services of the welfare state making the same fiscal effort. It is the levelling mechanism of the financing system. The GFBPS comprises a horizontal fund and a vertical fund.

- The horizontal fund is funded with 75% of the regulatory tax resources for each AC. The total resources are distributed in accordance with the adjusted population, which measures the spending needs of each AC.

This horizontal fund is zero sum, that is, that which some ACs contribute is received by the recipient ACs. The contributing ACs are those with the fiscal capacity greater than their index of needs, and vice versa, the ACs with a fiscal capacity below their index will be the recipients.

- The vertical fund is funded by a State transfer which is also distributed in accordance with the adjusted population. This contribution varies on an annual basis in line with the growth rate of the State tax revenue (STR).

ACs' resources after the GFBPS

	Total transfer €m	Resources after GFBPS €m	€/inhabitant	Index	ranking
Aragon	40	3,060	2,273	107.4	1
Castile and León	651	5,731	2,240	105.8	2
Balearics	-179	2,472	2,221	104.9	3
Asturias	134	2,391	2,211	104.5	4
Catalonia	-1,020	16,558	2,196	103.8	5
Madrid	-2,794	14,247	2,195	103.7	6
Cantabria	-33	1,295	2,183	103.2	7
Galicia	1,087	6,075	2,173	102.7	8
La Rioja	46	698	2,160	102.1	9
Castile-La Mancha	958	4,496	2,125	100.4	10
Extremadura	657	2,311	2,083	98.4	11
Valencia	1,147	10,534	2,059	97.3	12
Murcia	537	2,941	2,000	94.5	13
Andalusia	3,556	16,729	1,986	93.8	14
Canary Islands	2,264	4,022	1,891	89.3	15
TOTAL	7,053	93,559	2,117	100	

The application of this partial levelling subsidy leads to a strong cutback of differences in the ACs' tax capacity. If Catalonia had 19.1% more tax resources than the average of the ACs under the common regime, after the application of this levelling mechanism it stands barely 3.8% above the average.

STEP 2: GLOBAL SUFFICIENCY FUND (SF)

The Global Sufficiency Fund is aimed at ensuring a revised status quo. That is to guarantee each AC an increase in additional resources provided by the new financing system and prevent any government from losing resources in absolute terms compared to the previous 2001 system (also included are additional resources to offset losses from the previous system and institutional disloyalty).

The amount is calculated as the difference between the financing needs of 2009 – resources of the 2001 system plus the additional resources of the new system – and the revenue arising from the tax capacity of the ACs plus GFBPS transfers.

This is funded by a State contribution calculated for the base year and updated annually in accordance with the STR.

ACs' resources after the SF

	SF funding €m	Resources after the SF €m	€/inhabitant	Index	ranking
Cantabria	345	1,640	2,764	128.7	1
La Rioja	147	845	2,615	121.7	2
Extremadura	491	2,802	2,526	117.5	3
Aragon	329	3,389	2,517	117.2	4
Castile and León	685	6,416	2,508	116.7	5
Asturias	229	2,620	2,422	112.7	6
Galicia	587	6,661	2,383	110.9	7
Castile-La Mancha	331	4,827	2,282	106.2	8
Catalonia	-482	16,076	2,132	99.2	9
Madrid	-676	13,571	2,091	97.3	10
Andalusia	663	17,392	2,065	96.1	11
Murcia	6	2,947	2,005	93.3	12
Canary Islands	48	4,070	1,914	89.1	13
Valencia	-786	9,748	1,905	88.7	14
Balearics	-498	1,974	1,774	82.5	15
TOTAL	1.419	94,978	2,149	100	

Note: So as to obtain a comparison the SF funding has been adjusted by the specific competencies of certain ACs.

The application of the Sufficiency Fund distorts the current order of the ACs with regard to their tax resources. The revised status quo implies a restructuring of the ACs chiefly in accordance with the results of the previous 2001 financing system.

Once the equalisation fund mechanism is in place, Catalonia drops from its initial 3rd position by tax resources to 9th, standing **0.8% below** the average of the ACs under the common regime.

Unlike the GFBPS, the Sufficiency Fund does not evolve in accordance with the growth of the adjusted population, thus invalidating the previous levelling effect over time and causing a significant loss of relative position.

STEP 3: CONVERGENCE FUNDS

This comprises the Competitiveness Fund and the Cooperation Fund.

- **Competitiveness Fund:** This is allocated to those ACs with per capita funding (sum of tax revenue, the GFBPS and the SF) below the average or below their fiscal capacity index.

The fund is distributed among the recipient ACs in accordance with the relative adjusted population, although the resources each AC receives are limited.

- **Cooperation fund:** Resources are devoted to those AC with a per capita GDP below 90% of the Spanish average or a population density below 50% of the Spanish average or with low density's population keeping a population growth below 90% of the Spanish average.

The fund is distributed between the ACs by dividing the total amount in 2/3 in accordance with GDP and 1/3 in accordance with the population (with regard to the third to be distributed, the resources are also capped).

	Cooperation fund. €m	Competitiveness fund. €m	Total funding €m
Andalusia	463	0	463
Aragon	146	0	146
Asturias	129	0	129
Balearics	0	558	558
Canary Islands	105	61	166
Cantabria	25	0	25
Castile and León	299	0	299
Castile-La Mancha	112	0	112
Catalonia	0	836	836
Extremadura	66	0	66
Galicia	337	0	337
La Rioja	35	0	35
Madrid	0	407	407
Murcia	75	68	142
Valencia	0	1.063	1.063
TOTAL	1,792	2,992	4,784

$$ICFi = 0,75 + 0,25 \frac{CFi/Pai}{CFT/Pat}$$

FINAL RESOURCES OF THE ACS

The final resources constitute the chief available resources in the hands of the autonomic governments to finance all the competencies assigned to the ACs. These resources are presented in terms of uniform competencies between the ACs.

	€m	€/inhabitant	Index	ranking
Cantabria	1,665	2,807	124.4	1
La Rioja	880	2,724	120.7	2
Aragon	3,535	2,626	116.3	3
Castile and León	6,715	2,625	116.3	4
Extremadura	2,868	2,585	114.5	5
Asturias	2,749	2,542	112.6	6
Galicia	6,999	2,504	110.9	7
Castile-La Mancha	4,938	2,334	103.4	8
Balearics	2,532	2,275	100.8	9
Catalonia	16,912	2,243	99.4	10
Madrid	13,978	2,154	95.4	11
Andalusia	17,855	2,120	93.9	12
Valencia	10,810	2,113	93.6	13
Murcia	3,090	2,102	93.1	14
Canary Islands	4,236	1,992	88.3	15
TOTAL	99,762	2,257	100	

The Convergence Funds modify the relative final positions. Financing per inhabitant of Catalonia stands 0.6% below the average of the ACs under the common regime; it ranks 10th compared to the other ACs.

Evaluation

Catalonia ranks 3rd with regard to capacity in tax resources, 19.1% above average for the State. After applying the redistribution mechanisms of the financing system. Catalonia drops to 10th position in resources received, 0.6% below the average of ACs under the common regime. That is, it loses 7 places in the ranking and 19.7 percentage points.

The financing system does not respect the equalisation principle and is arbitrary as regards its results:

- There are 8 ACs which receive more resources than Catalonia when their tax capacity is lower than the latter's. That is, they do not generate more tax resources than Catalonia but the system assigns them more resources in the final instance.
- There are 3 ACs which are below the average of ACs in tax capacity but receive an above average sum. That is, the over-levelling of the system signifies that despite being relatively poor (they generate below average taxes), they enjoy more resources as if they were relatively wealthy.
- There are 3 ACs benefitting from the system which, being relatively wealthy (with above average collection) end up better positioned in the ranking of final resources; gaining positions with regard to the average and, instead of contributing resources to the levelling system, they receive them.
- ACs with similar capacities and highly different final resources appear.

Government of Catalonia
Ministry of Economy and Knowledge