

# Teaching Manual Spanish personal income TAX: Practical Application

Leticia Gallego Valero

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Leticia Gallego Valero

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# Presentation

The Personal Income Tax (IRPF, *Impuesto sobre la Renta de las Personas Físicas*) is a fiscal instrument that forms part of the Spanish tax system. It is a periodic, progressive, direct and personal tax levied on the income of natural persons, depending on their personal and family circumstances. It is regulated by Law 35/2006, of November 28, on Personal Income Tax, and Royal Decree 439/2007, of March 30, which approves the Personal Income Tax Regulation. In addition, other applicable regulations must be considered, such as Royal Decree 1461/2018, of December 21, which modifies the Personal Income Tax Regulation, Royal Decree-Law 27/2018, of December 28, which adopts certain measures relating to tax and cadastral matters, and Order HAC/1164/2019, of November 22, by which the objective estimation method of the Personal Income Tax and the special simplified regime of the Value Added Tax are developed for the year 2020.

This teaching manual is intended as a useful instrument for students of Public Sector Economics to gain a basic theoretical and practical understanding of Spanish personal income taxation. To this end, numerous practical examples are included to enable the application of this tax and clarify both common issues and more complex ones. The answers to the exercises refer to the 2020 tax period, applying the regulations in force in this period and introducing any modifications to the regulations. In the different sections of this manual, partial exercises are provided, including the applicable regulations underpinning the study of the theoretical concepts, as well as explanatory notes which help students understand the solutions to the exercises. In addition, at the end of each exercise there are some notes on the Spanish Personal Income Tax that give a quick overview of the tax to facilitate understanding, as well as a glossary of concepts to clarify the most relevant terms.

This manual in English is based on the teaching material in Spanish used by the teachers of the subject, including further explanations of specific points for foreign students when

necessary. Firstly, and after this presentation, there is the introduction, the theoretical chapter, which leads into the second chapter, about income from work. The following sections (chapters 3 and 4) are about income from capital and income from economic activities. All of them are explained using elaborate exercises. At the end of the manual, two diagrams of the tax are attached, with a list of the references used to develop them.



# I. Introduction

The Spanish Personal Income Tax (IRPF) is regulated by Law 35/2006, of November 28, on Personal Income Tax, and Royal Decree 439/2007, of March 30, which approves the Personal Income Tax Regulation. In addition, other applicable regulations must be considered, such as Royal Decree 1461/2018, of December 21, which modifies the Personal Income Tax Regulation, Royal Decree-Law 27/2018, of December 28, which adopts certain measures relating to tax and cadastral matters, and Order HAC/1164/2019, of November 22, by which the objective estimation method of the Personal Income Tax and the special simplified regime of the Value Added Tax are developed for the year 2020. It is a periodic, progressive, direct and personal tax levied on the income of natural persons, depending on their personal and family circumstances.

## 1.1. Concept and Nature

The Personal Income Tax (IRPF) is defined as a personal and direct tax that, in accordance with the principles of equality, generality and progressiveness, is levied on the income of natural persons depending on their personal and family circumstances.

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It has the following characteristics:

- a. It is a direct tax. It taxes a direct or immediate manifestation of wealth: the income of individuals at the time it flows to them.
- b. It is a personal tax. The taxable event is related to a specific person.
- c. It is a subjective tax. To calculate the tax owed, the personal and family circumstances of the taxpayer are taken into account.
- d. It is a periodic tax. The taxable event continuously reoccurs.
- e. It is a progressive tax. The tax rate applied increases as the tax base on which the tax is levied increases.

The tax is levied on the amount of income that the taxpayer can use after meeting his/her needs and the needs of those who depend on him/her.

## **1.2. Scope of Application**

Regarding the scope of application, the Personal Income Tax is applied throughout the Spanish territory, without prejudice to:

- a. The regional tax regimes of the Basque Country and the Community of Navarra.
- b. Specific provisions in the regulations for the Canary Islands, Ceuta and Melilla.
- c. The provisions of the International Treaties and Conventions that have become part of the domestic legal system.

## **1.3. Taxable Event**

The taxable event is the receipt of income by the taxpayer. The following items make up the taxpayer's income:

- a. Earnings from work.
- b. Capital income.
- c. Income from economic activities.
- d. Capital gains and losses.
- e. Income imputations.

## **1.4. Tax Liability**

There are two different classes of taxpayers. In this regard, the Personal Income Tax Law only regulates the tax liability of Spanish residents, leaving the regulation of the taxation of non-residents to a specific law that regulates the income of non-residents (IRNR).

### **1.4.1. Tax Liability of Residents in Spain**

The Personal Income Tax Law considers the individual as a taxpayer. The following are thus liable to pay the Personal Income Tax:

1. Natural persons who have their habitual residence in the Spanish territory. The taxpayer has his/her habitual residence in the Spanish territory when any of the following circumstances occurs: