

Spanish Parliament rejects 2019 State Budget Bill; Government calls for elections

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Executive summary

On 13 February 2019, the Spanish Parliament voted against the 2019 State Budget Bill (the Budget Bill) proposed by the Spanish Council of Ministers on 11 January 2019.

On 15 February 2018 the Spanish President called for elections to take place on 28 April 2019.

This new development does not only have an impact on the tax measures which were included as part of the Budget Bill (see EY Global Tax Alert, [Spain releases 2019 State Budget Bill](#), dated 17 January 2019) but also increases the uncertainty with respect to other relevant tax amendments which were proposed during the past several months.

Detailed discussion

Since October 2018, the Spanish Government has released a number of draft Bills which, if approved, would introduce significant amendments to the Spanish tax system.

In particular, apart from the amendments to the Spanish Corporate Income Tax (CIT) Law proposed by the Budget Bill, the Bills proposing implementation of a Financial Transaction Tax and a Digital Services Tax were presented to the

Spanish Parliament for approval (see EY Global Tax Alerts, [Spain sends bill on Financial Transaction Tax to Parliament](#), dated 4 February 2019 and [Spain sends bill on Digital Services Tax to Parliament for approval](#), dated 29 January 2019).

Finally, the Spanish Government also released an anti-fraud Bill for public consultation in October (see EY Global Tax Alert, [Spanish Council of Ministers releases draft anti-tax evasion Bill for public consultation](#), dated 26 October 2018), which included a number of amendments required to align Spanish rules with the European Union (EU) Anti-tax Avoidance Directive (ATAD).

This Alert summarizes the current status of all these tax Bills and the impact that the rejection of the Budget Bill is expected to have on them.

Tax amendments included in the Budget Bill

The Budget Bill proposed the introduction of relevant changes to the Spanish CIT Law by introducing measures aimed at increasing the State's tax revenues, such as the reduction of the participation exemption regime for dividends, capital gains to 95% of the qualifying income, and the introduction of an Alternative Minimum Tax (AMT) for CIT purposes.

It is not expected that these measures will be pursued separately from the Budget Bill. Thus, it is anticipated that these measures will not be approved in the short term, but rather only as part of a Budget Bill of a new Government, which includes these (or similar) measures as part of its political program.

Financial Transaction Tax (FTT) and Digital Services Tax (DST)

The Government had proposed to introduce two new taxes, the FTT and DST, by way of two separate Bills which were presented to the Spanish Parliament in January.

While these Bills have not been formally affected by the rejection of the Budget Bill, it is not expected that the Government will be able to pass them given the limited time until the elections take place.

The possibility that the Government decides to process them as Royal-Decree Law (a much more expedited process which only requires agreement by the Council of Ministers) cannot be entirely ruled out. However, the Government would have to seek confirmation of the Royal-Decree Law by the Parliament shortly after, and would have to evidence the urgent need for these measures to be approved without following the normal procedure or otherwise the Royal-Decree Law could be rejected.

It is therefore likely that these new taxes will not be considered again until after a new Government is formed, and only if such Government is in favor of the introduction of these new taxes.

Specifically for the DST, given that it was originally proposed by the prior Government, it is likely that this, or a similar tax, will be considered as an option by a number of the political forces which could form a Government after the elections, so its approval cannot be discarded in the short to medium term.

Anti-fraud Bill and ATAD implementation

Since the draft Bill was released for public consultation in October 2018, the Government has not presented a final Bill before the Spanish Parliament for its approval.

Given that the amendments to align the Spanish domestic rules with the ATAD should have been implemented, at least partly, by 1 January 2019, the Government could extract the relevant measures from the rest of the anti-fraud Bill and process it as a Royal-Decree Law, based on the "urgent need" to have it approved.

Next steps

Given the time constraints, it is expected that the Government has a limited timeframe to introduce tax measures before the elections take place.

As mentioned, in the case of the ATAD implementation, the existence of an "urgent need" to pass the tax amendments through a Royal-Decree Law before the Parliament is dissolved could be potentially justified.

EY will closely follow the Government and Parliamentary activity in the next months to report on any relevant tax developments.

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