The Spanish Experience with the Net Wealth Tax

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Dublin, 19 February 2026

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... and we have a lot, for better or for worse

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Institutional Setting

We in Spain do not have a single Net Wealth Tax (NWT)

Institutional Setting

We in Spain do not have a single Net Wealth Tax (NWT), but we do have 20 Net Wealth Taxes

+ We are the only European Member State with a periodic, general and progressive tax levied on personal wealth

Why 20?

- Central government NWT (in force since 1977; temporally abolished 2008-2010), but it has been progressively transferred to the regions
- Thus, it is a decentralized tax, and regions have limited regulatory powers since 2009 **(+15**; a key example is Madrid: 100% tax credit in 2011)
- A particular feature is the existence of a special tax regime for the Basque Country (Álava, Guipúzcoa and Vizcaya) and for Navarre (3+1=**+4**) since 1977
- Since 2022, recentralization: the so-called Tax on Large Fortunes, a central tax (**+1**)

The tax on large fortunes – which provides a credit against the regional wealth tax – is intended to encourage regions to levy (or maintain) the tax, thereby preventing a race to the bottom.

Some Relevant Legal Details (I)

- Large <u>minimum threshold</u> (universal allowance): €700k (or €500k for Catalonia, since regions enjoy regulatory power with respect to this legal element) / 80k declarations per year in Catalonia (around 1% population; 2% of PIT returns submitted)

- <u>Exempt assets</u> (it is a general tax, but…):
    - Pensions
    - Primary residence: up to €300k
    - Family business (real economic activity; managed by the taxpayer, whose remuneration represents more than half of their annual income; and in which the taxpayer or their close relatives own at least 20% of the share capital)
    - Spanish Historical Heritage assets, masterpieces, and antiques

- <u>Limit on tax liability</u> (to avoid confiscation, principle set in the Constitution):

    NWT + PIT <= 60% of *Personal Income* (*excluding long term capital gains*)
    If the sum of liabilities exceeds 60%, the NWT is reduced up to a minimum 20% of the original tax liability

Some Relevant Legal Details (II)

- <u>Progressive Tax Schedule</u> (I):

Catalonia

Taxable Wealth (€)	Gross Tax Liability (up to the threshold)	Amount above threshold (€)	Marginal Tax Rate (%)
0	0	167,129.45	0.21
167,129.45	350.97	167,123.43	0.315
334,252.88	877.41	334,246.87	0.525
668,499.75	2,632.21	668,500.00	0.945
1,336,999.75	8,949.54	1,336,999.26	1.365
2,673,999.01	27,199.58	2,673,999.02	1.785
5,347,998.03	74,930.46	5,347,998.03	2.205
10,695,996.06	192,853.82	9,304,003.94	2.75
20,000,000.00	448,713.93	onwards	3.48

<u>Examples:</u>

Taxable Wealth (Gross Wealth minus Exemptions and above the €500k universal allowance) = <u>€300,000</u>
Gross Tax Liability = 350.97 + (300,000-167,129.45) x 0.00315 = <u>€769.51</u> // Average Tax Rate (ATR) on taxable wealth = <u>0.26%</u>

Taxable Wealth (Gross Wealth minus Exemptions and above the €500k universal allowance) = <u>€30,000,000</u>
Gross Tax Liability = 448,713.93 + (30,000,000-20,000,000) x 0.0348 = <u>€796,713.93</u> // ATR on taxable wealth = <u>2.66%</u>

Some Relevant Legal Details (III)

- Progressive Tax Schedule (II): what about the value of the tax rates?

  There is a correspondence between taxing a stock (net wealth) and taxing the flow of income generated by that stock (capital income), that is,

$$\textbf{Stock} \times t\_W = (\textbf{Stock x r}) \times t\_I$$

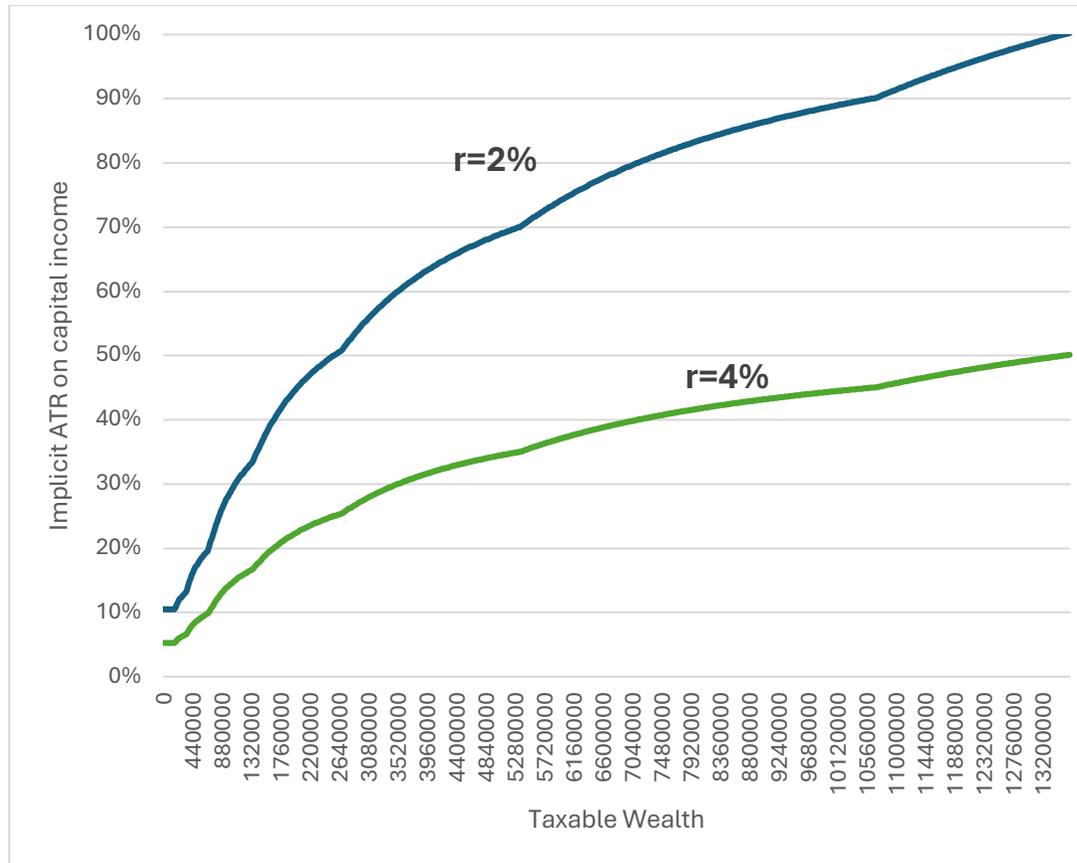 Stock x r := flow of capital income, where 'r' is the annual return of capital
  t_W := Net Wealth Tax rate & t_I := Implicit Personal Capital Income Tax rate

  Therefore, we have: **t_I = t_W / r**

  Example: t_W (top rate)= 3.48% and r= 6% (high, but maybe ok for UHNWI)

  t_I (%) = [0.0348 / 0.06] x 100 = 58% (*implicit* tax on capital income)
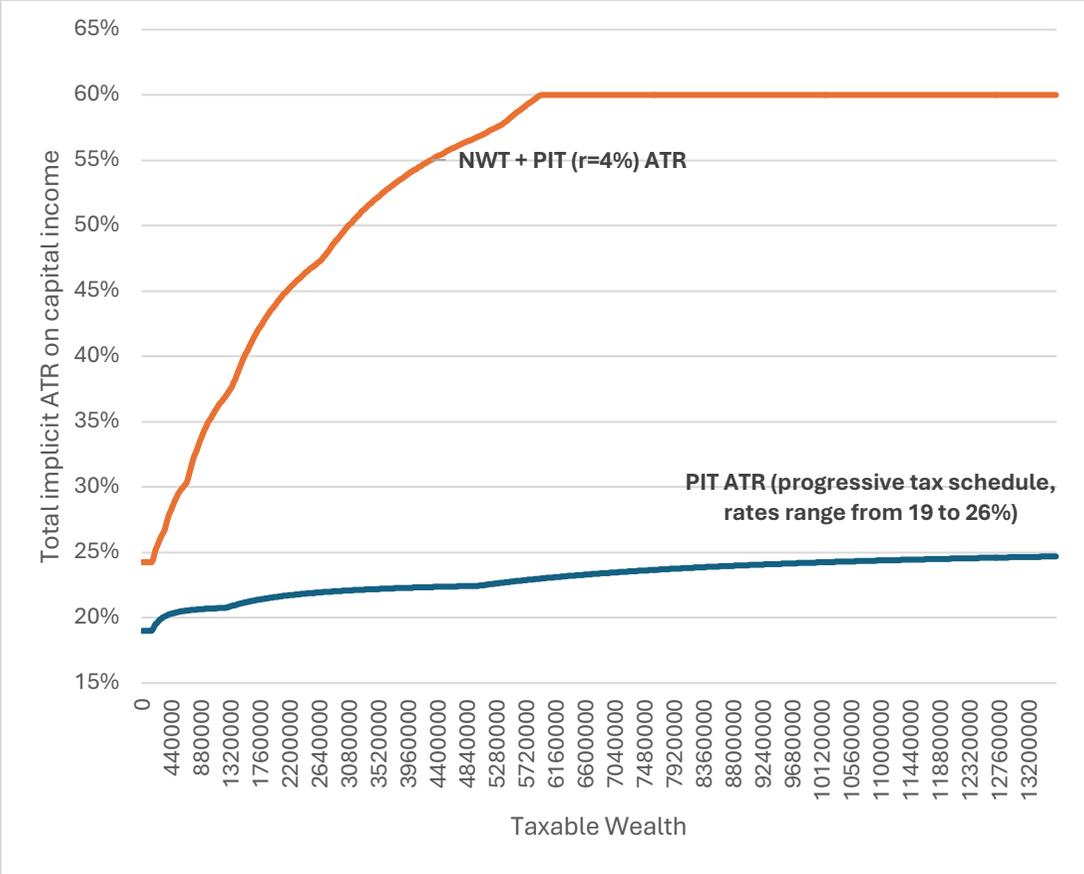
Some Relevant Legal Details (IV)

- The value of the implicit ATR depends on the annual return to capital income (the higher, the lower the implicit rate)

- While the return may be high for UHNWI, this may not be the case for the rest. That is why, here we show results for 2 and 4% return instead of 6%.

- The fact that we expect capital returns to be lower at the bottom and higher at the top could produce a regressive pattern, suggesting that a higher threshold (> €500k) would be advisable.

But, this is without considering the limit on tax liability (PIT + NWT) and the tax rate on capital income through the PIT

Some Relevant Legal Details (& V)

The chart shows "Total implicit ATR on capital income" (y-axis, 15% to 65%) vs "Taxable Wealth" (x-axis, 0 to 13200000). The orange line labelled "NWT + PIT (r=4%) ATR" rises steeply and plateaus at 60%. The blue line labelled "PIT ATR (progressive tax schedule, rates range from 19 to 26%)" rises gradually from about 19% to 25%.

- A priori, the total implicit rate can be larger than the rate on labour income (top: 48%)

- This is so in spite of the cap on the joint tax liability (PIT+NWT)

- However, this is in theory, as **in practice** – particularly for those at the top – *the effective tax burden is substantially reduced through the use of tax loopholes, aggressive tax planning, and illegal evasion such that it is below what the tax code would imply* (we explain this next)

What we have learnt from the Spanish Net Wealth Tax

Graphical evidence on the next slides

<u>Reality:</u>

- Under perfect assessment and no evasion, for each €1 collected via the NWT, about €35 are collected via the PIT; in practice, the ratio is 78:1. **Modest revenue capacity.**

- The **tax gap** is quite large, in particular at the top

- **Avoidance** is pervasive, including mobility (fixed through the Tax on Large Fortunes since 2022)

<u>Potentiality:</u>

- Limited **Redistributive capacity**

# The tax gap is quite large (35.4%), in particular at the top

Bretxa fiscal IP; infra-declaració
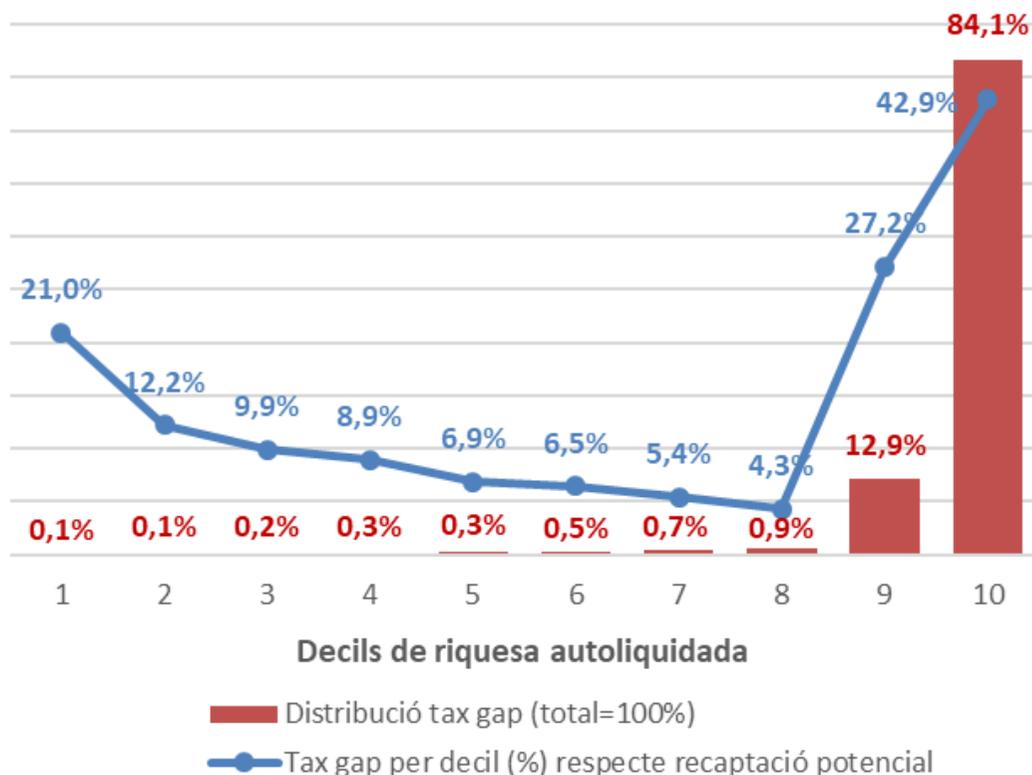
- This is only underreporting (the most important source of gap) for 2018 and for Catalonia (hardly any variation for 2022)

- At the 10th decile, the gap is 42.9% and accounts for 84.1% of the total tax gap

- **Out of potential €100 of tax revenue collected, €35 go uncollected**

- 84% of the gap is due to financial assets located offshore (important limitation to enforce the tax, in particular by regional tax administrations) ... very important for calculating the '*optimal tax gap*' (current ongoing analysis)

Tenth decile: > €4.2M of gross wealth (before the universal threshold + exempt assets)

Avoidance is pervasive (I)
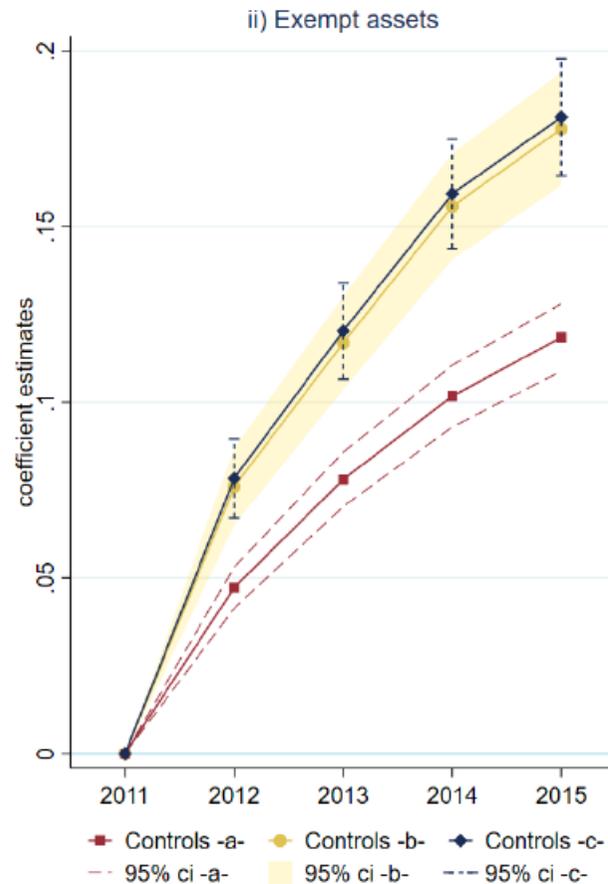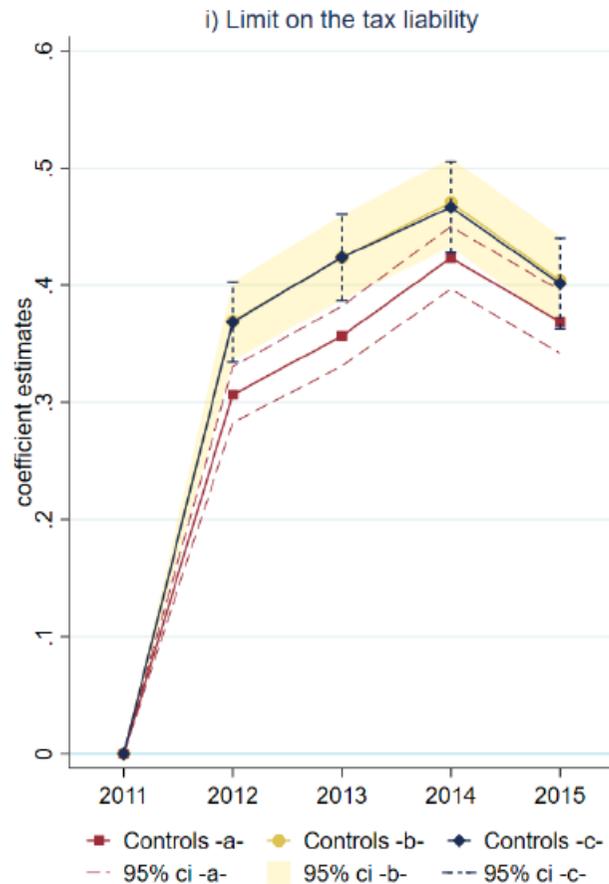
- Taking advantage of the unexpected reintroduction of the tax by the central government in 2011, we estimate avoidance reduced the expected impact of the tax

- The revenue loss was not negligible: **it represented 2012-2015 revenue loss of 2.75 times the 2011 estimated wealth tax revenues**

- The most important source of reaction was the limit on the tax liability (increase in long-run capital gains). This again suggests that setting a higher threshold would be advisable.
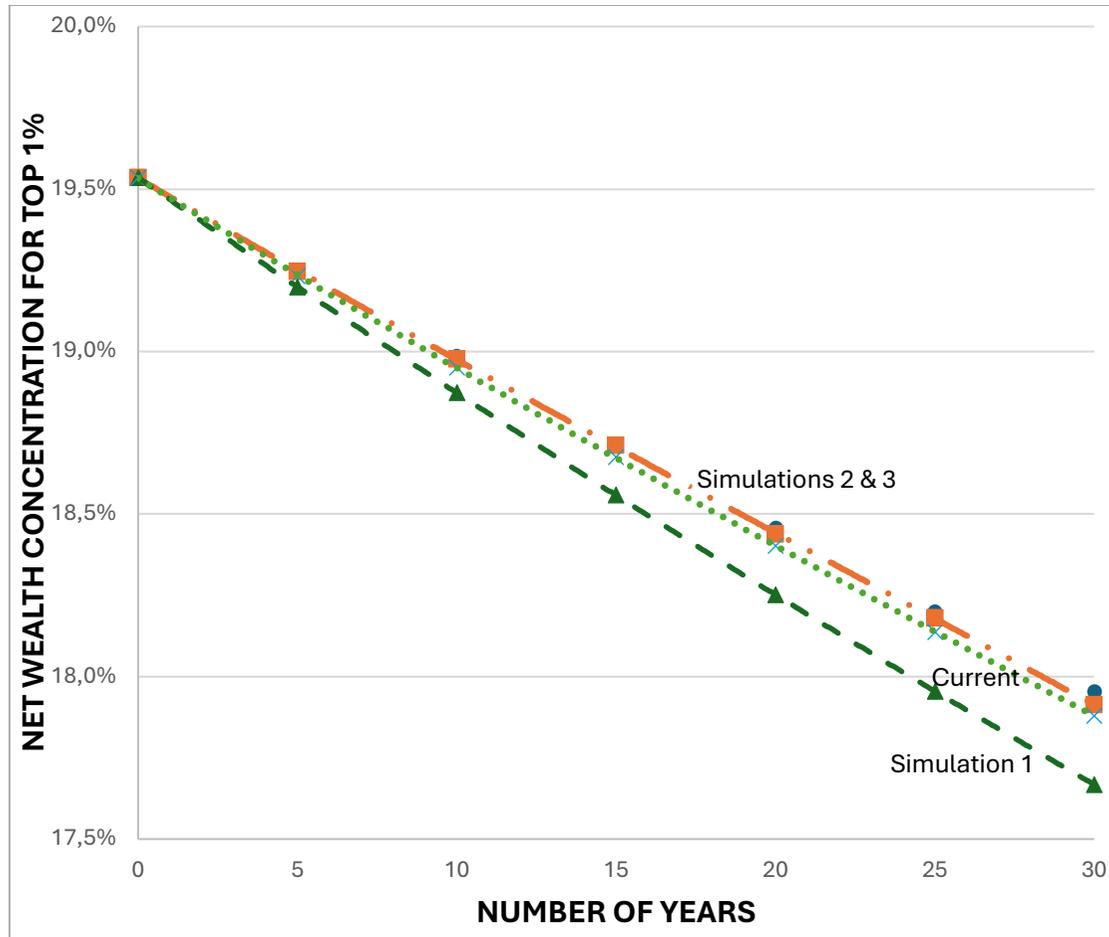
Avoidance is pervasive (& II)
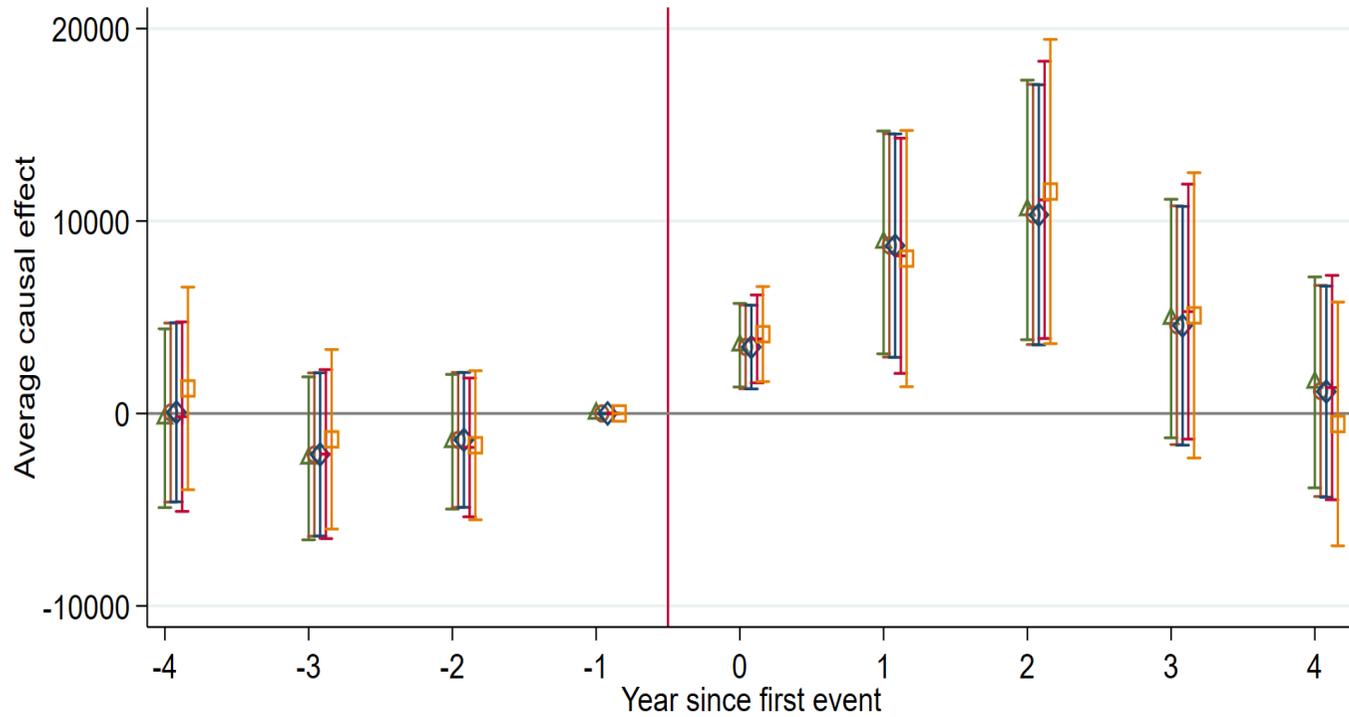
- And the perfect storm: **no long-run deterrence effect from audits**

- Four years after an audit, the deterrence effect dissipates... taxpayers employ avoidance strategies... and again, the limit is the main source of avoidance

Redistributive capacity

- The redistributive impact over a stock figure has to be assessed in the long run (accumulation of short run impacts)

- **If the current tax worked properly** (assessment + evasion, fixed), **concentration of wealth in hands of the top 1% would be reduced from 19.5% to 18.14%.** Thus, this is an upper bound, since avoidance would still be present.

- A potential reform: no exemptions, no limit on tax liability, €2.28 million and 1% flat tax rate, concentration would fall to 17.95%… this appears to be a modest decline.

Any lesson from the Spanish Experience?

- *Is **this** the best tax to reduce wealth concentration?* (maybe, but this is conditional on enforcement capacity and design adjustments)

References in English

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Estimation of Behavioural Responses to the NWT

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Given the estimated gap, what is the optimal level of enforcement, and so the optimal tax gap?