From joint to individual filing: The tax unit in the Spanish Income Tax

Amadeo Fuenmayor Fernández
Amadeo.Fuenmayor@uv.es
Rafael Granell Pérez
Rafael.Granell@uv.es
Francisco J. Higón Tamarit
Francesc.Higon@uv.es

Departamento de Economía Aplicada
Universidad de Valencia
Edifici Oriental, Campus dels Tarongers
46022 Valencia (Spain)

Second Meeting of the Society for the Study of Economic Inequality (ECINEQ)

Berlin, Germany, 12 - 14 July 2007

Introduction

Joint filing exists in Spain since the beginning of the Spanish Income Tax System, firstly as compulsory measure, and more recently as an alternative to individual filing. However, until now there have not been microsimulation studies in Spain with regard to alternatives in family taxation.

Joint filing has some important consequences in terms of inequality and income distribution and can negatively affect the access of women to the labour market.

From our point of view, and taking into account the current structure of modern societies, universal individual tax filing is the most desirable tax system. To check this opinion we will carry a microsimulation exercise consisting in eliminating joint filing in the Income tax and to introduce modifications in the individual tax filling to keep tax collection unchanged.

Joint versus individual filing

Family has been traditionally the tax unit in the Income tax. Since the end of 70’s and with the support of scientific literature most OECD countries have evolved towards tax systems based on individuals.

So, in this section, we will pose the different ideas considered to support both the use of joint filing and the universal individual filing. Later we will analyse some techniques designed to correct for the problems derived from income accumulation in the case of joint filing.
**Tax Unit: the case of Spain**

In this section we will analyse the evolution of the tax unit in the Spanish income tax since it was implemented in 1978.

**Methodology**

Since 2003 we have been working on microsimulation techniques, related to the Spanish Income Tax System, through instructions programmed in STATA. We do not intend to produce a 'standardised model', where you can introduce some parameters in order to obtain straightforward results. Nevertheless, we develop in each case a fitted version to study each problem. As a database we use the European Community Household Panel (ECHP). With our static model we are working on the consequences of the treatment of the tax unit in the Spanish Income Tax.

**Who benefits from ‘joint filing’?**

The first objective of this paper is to find those who benefit from the possibility of joint filing considering different variables like age, types of income or geographical areas. We also calculate, as a reference, the results derived from a system of splitting.

**The elimination of joint filing: alternatives.**

In this section we will consider the effects of eliminating joint filing and introducing instead of it, universal individual filing. Obviously, the current users of joint filing will be the losers of such measure, so we can expect a remarkable increase of tax collection.

In order to make appropriate comparisons, we will search for mechanisms that grant a tax collection similar to the obtained before eliminating joint filing. Some alternatives would be a linear reduction in the tax schedule, introducing a tax credit, etc... We will analyse those who benefit from such alternatives and apply an analysis of inequality, progressivity and distribution.

**Conclusions**

In this section we will show some conclusions of this piece of research.