



Research and Social Science Centre

INSIGHT INTO HOW LARGE COMPANIES PERCEIVE THE SPANISH TAX SYSTEM

Summary report

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Introduction

This summary report presents the *main findings of the study* on how Spanish large companies perceive the tax system. For the study, a survey has been carried out and in-depth interviews have been conducted with professionals using a method of semi-structured qualitative interviewing.

The **survey** is carried out using a pre-coded questionnaire, with few open questions, designed for administration via the Internet although a first telephone contact is made by interviewers and later there is a personalised follow-up of such contacts. The survey closed with a total of 144 interviews completed directly and 76 interviews with representatives of subsidiaries whose parent company indicated that they handled the taxation of the subsidiaries and, therefore, answered on their behalf. The representativeness of the sample (n=220) with respect to the universe is quite good since the results represent the largest group with a margin of error of 2.43 fixing the level of trust at 95.45% and the assumption of probability in the most unfavourable proportion (p/q=50).

In-depth interviews are conducted within the framework of a study aimed at knowing how those persons responsible for the taxation of large companies established in Spain rate the functioning and efficiency of the Spanish tax system, their opinion and satisfaction with such system, exploring also opinions regarding the effect of tax pressure on the competitiveness of the Spanish business sector. Specifically, making enquiries using qualitative methodology is embedded in the design of the research as a *complement to the survey* and the qualitative analysis will permit the examination of certain queries arising from the analysis of the results and the clarification of certain tendencies, in addition to presenting benchmarks which could prove very valuable in interpreting the results of the survey. The data contained in this report does not include all the details of the multivariable and interpretative statistical analyses carried out, which are set out in the final report on results that will be delivered to the **Fundación Impuestos y Competitividad**. The last section of the report contains the technical specifications and basic methodological description of the study.

General characteristics of the companies and persons interviewed

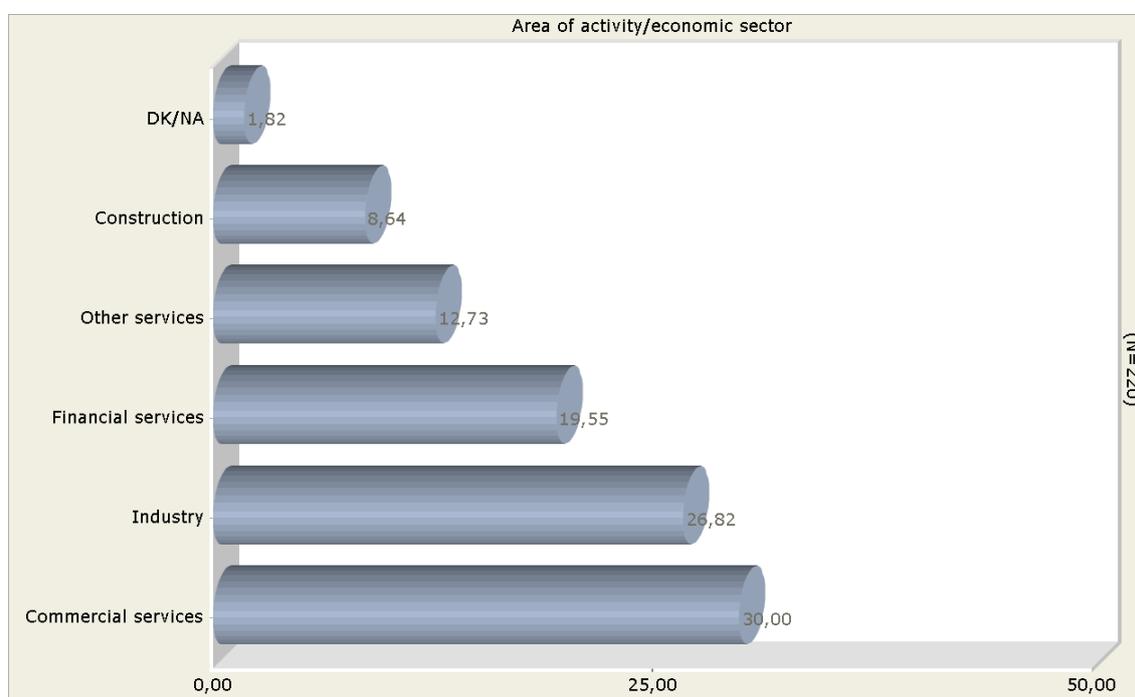
1.1 Profile of the companies represented in the survey.

Nearly all the entities that have taken part in the survey are organisations that belong to business groups (93.18%) and 22.44% of interviews included in the survey have been conducted with group parent companies. In certain business groups, the parent company and one or more subsidiaries have been interviewed, in other cases only the parent company or only subsidiaries have been interviewed. Amongst the companies that belong to business groups, in the majority of cases the group parent company assumes the functions of the tax department of the subsidiaries (77.07%).

More than one third of the entities included in the sample (39.55%) have their own tax department. In the majority of cases this one is a small department (81,61% between one and five persons) although this varies significantly depending on whether or not the entities are parent companies of business groups.

Considering the classification of the area of activity of the companies, commercial services is the most represented area in the sample, with nearly a third of the total (30%), followed by the industrial sector (26.82%) and financial services (19.55%).

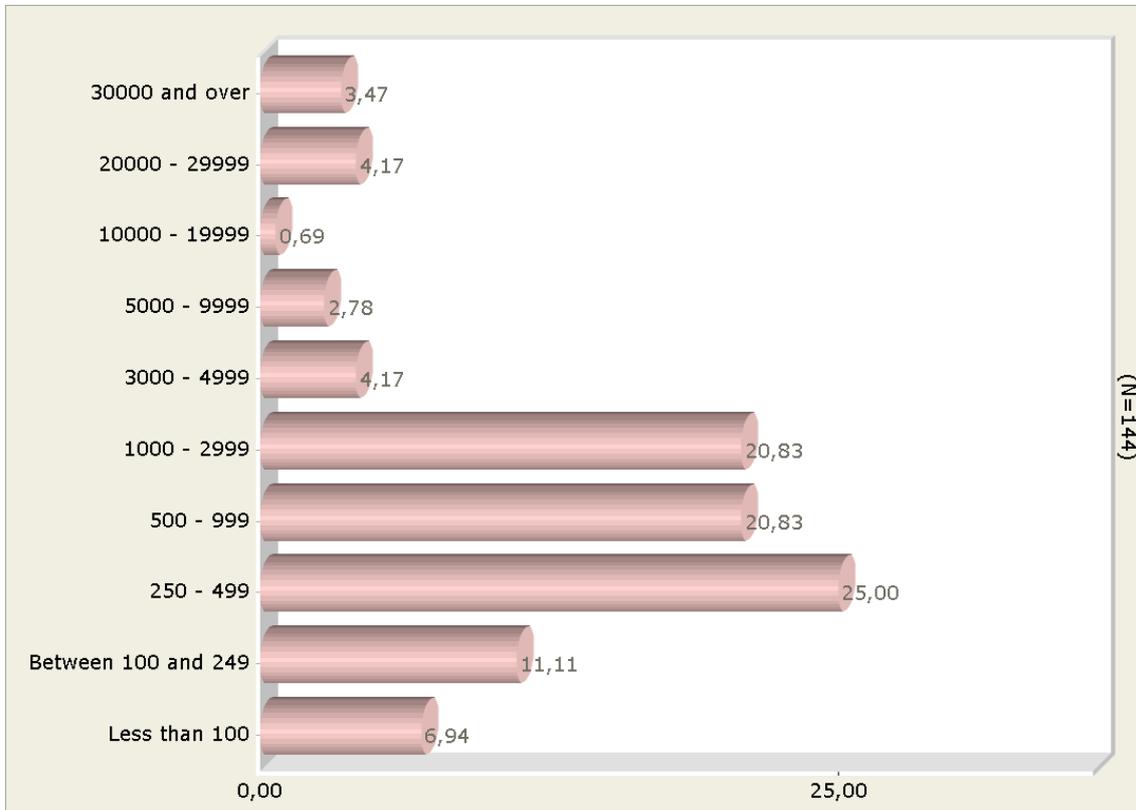
Figure 1 - Grouping in large areas of economic activity



In terms of territorial establishment, the majority of these entities have their head office in Spain (76.1%) leaving 23.9% of the cases where the head office is located abroad. Furthermore, 60.42% of the entities taken as a whole engage in sales activities or services abroad, showing an important level of internationalisation.

Regarding the size of the entities, the number of employees is most often between 500 and 3000 (42%), 15% are amongst the largest (with over 3000 employees) and only 7% amongst the smallest (with less than 100 employees).

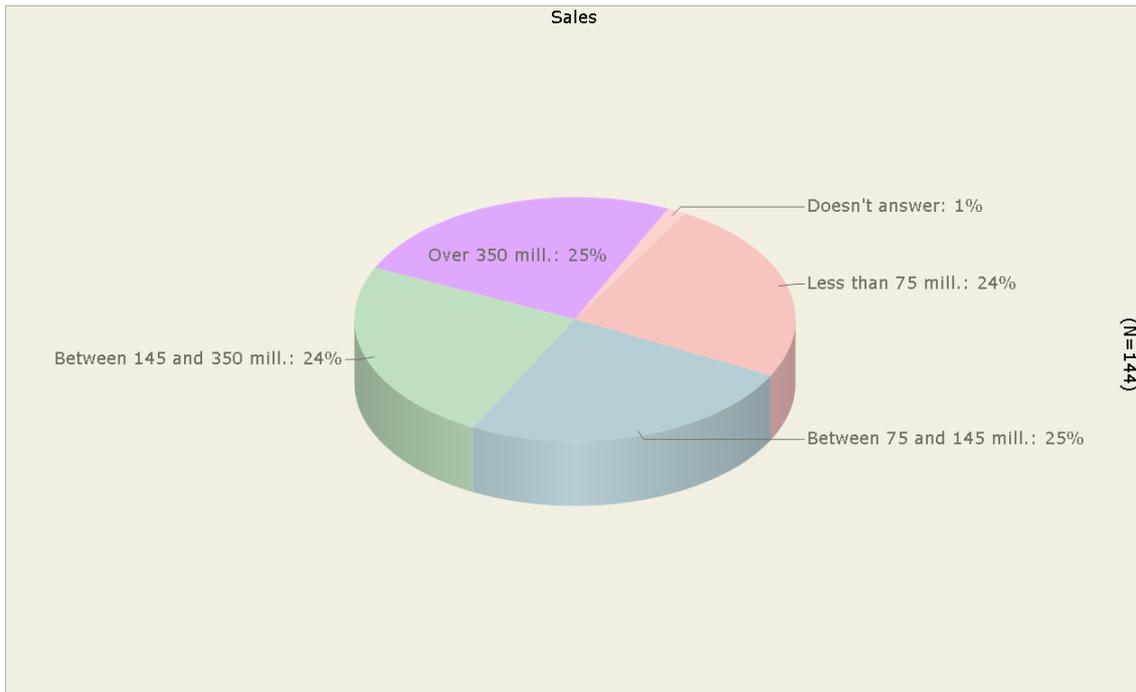
Figure 2 - Number of employees in the company, including, where applicable, any other national and international headquarters (Base: 144)*



* NOTE: The change in base to 144 is due to the fact that this question was filtered in 76 subsidiaries for which the parent company has answered.

Average turnover or sales is 455,717,941 euros. However, it should be borne in mind that this figure is not very good at descriptive level since it is observed that there is scarce concentration of values clustered around the average as central tendency. For the purpose of grouping the entities according to their turnover, the median has been used as a reference (the value below which 50% of cases fall and above which are 50% of cases, in this case the value is 144,9 million) and the first and third quartiles (values which leave 25% of the cases above and below, respectively) resulting in the following distribution.

Figure 3 – Grouping according to turnover



The regional distribution or location of the entities within Spain shows a large concentration in the country's main centres of economic activity, Madrid and Barcelona, where 110 and 46 interviews were conducted, respectively, followed closely by the Community of Valencia and the Basque Country (10 and 12, respectively).

1.2 Profile of the professionals interviewed.

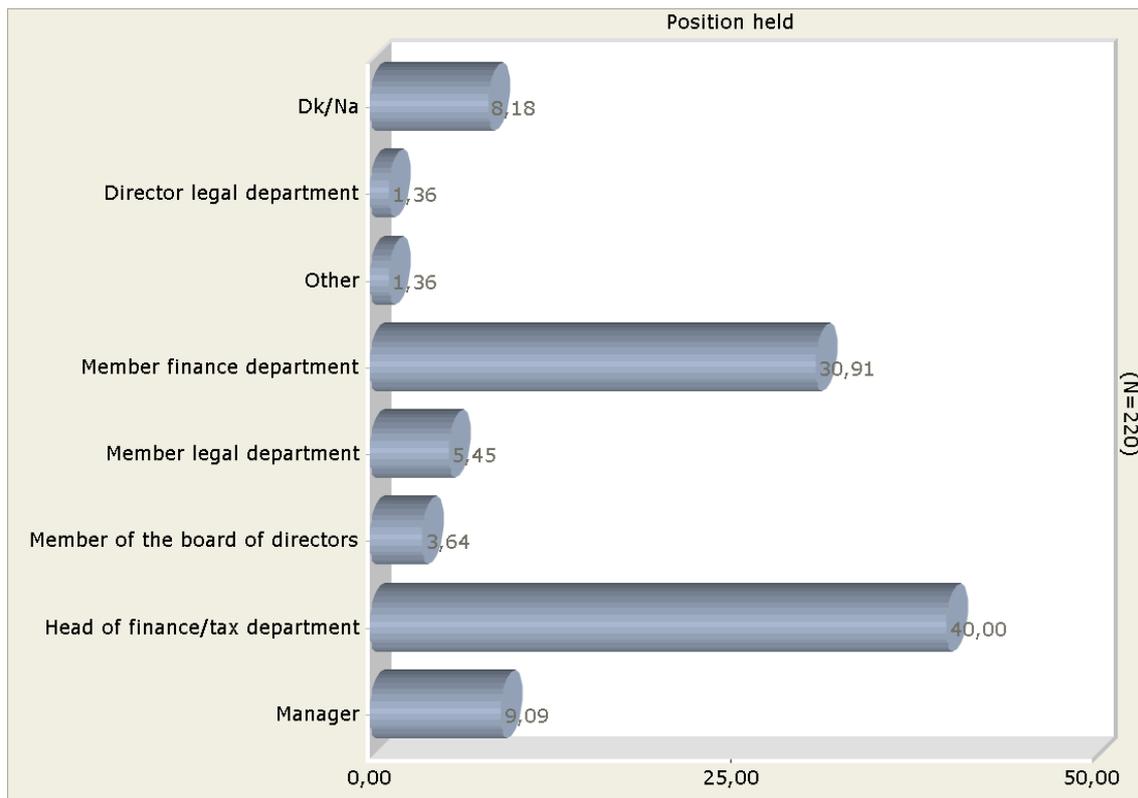
The general profile of the tax experts who answered the survey is male (69%), average age 45, the youngest person being 28 and the eldest 64 .

In the distribution according to cross gender and age, no significant differences are observed in the age of men and women, since the distribution follows a very similar pattern.

In nearly every case, the interviewees are university graduates (85%); 43% hold a degree and 42% have completed post-graduate studies or specialisation courses, the most frequent being a Master's Degree (70%) and specialist or expert courses (14%).

The most frequently held positions are head or senior executive of finance or tax departments (40%) and members of such departments (30.91%), with less presence of members or senior executive of legal departments (5.45 and 1.36%)

Figure 4 – Classification according to positions held in the entity

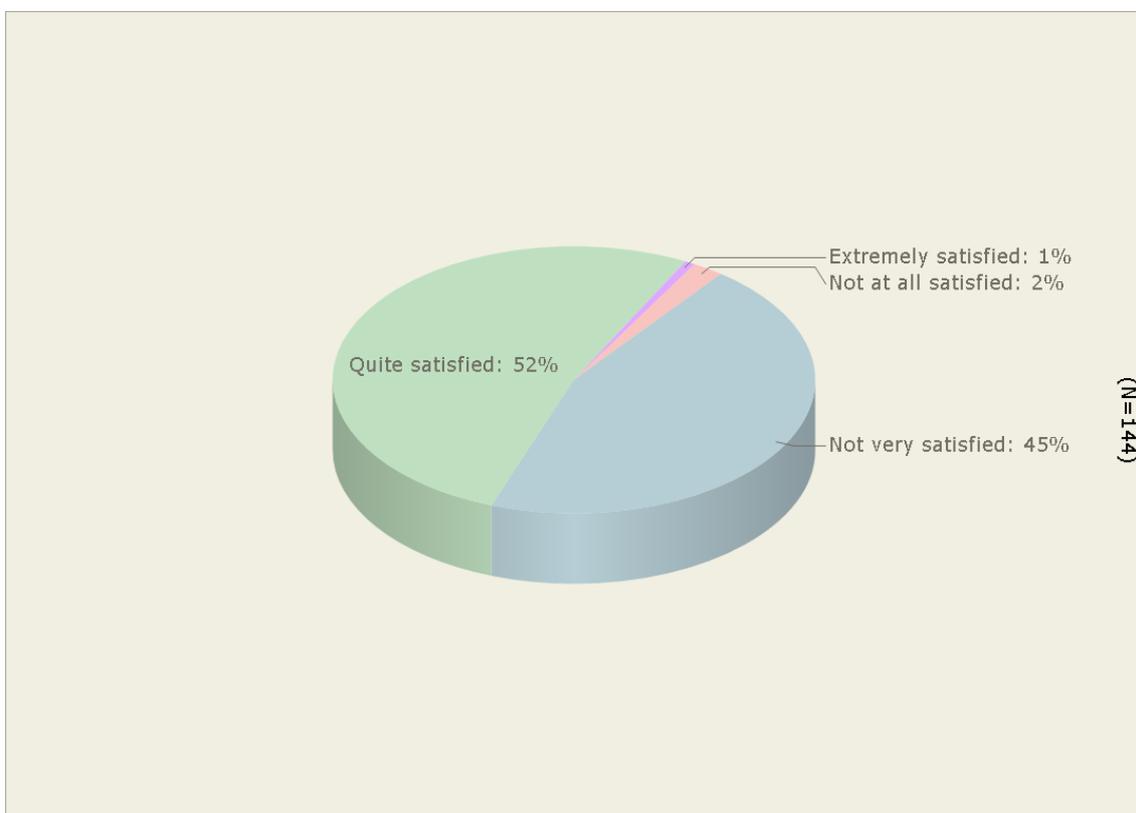


Length of service in the position is another important field in the characteristics of the interviewees. The majority are persons with a considerable length of service since over 50% have held their position more than 6 years (38.64% more than ten years and 20% between six and ten years).

General framework for the evaluation of the tax system

1. In the general evaluation of *current satisfaction with the Spanish tax system* in the entity, practically none of the interviewees expressed extreme satisfaction or dissatisfaction with the system. Only 2% report being very dissatisfied and only 1% is very satisfied.
 - Taking into account the wording of the question, the interviewees answered representing the experience and climate of opinion in the particular company or organisation in which they work by giving their personal impression.

Figure 5 - In general, what would you say is the level of satisfaction of (Name of entity) with the Spanish tax system? Would you rate the satisfaction as ...

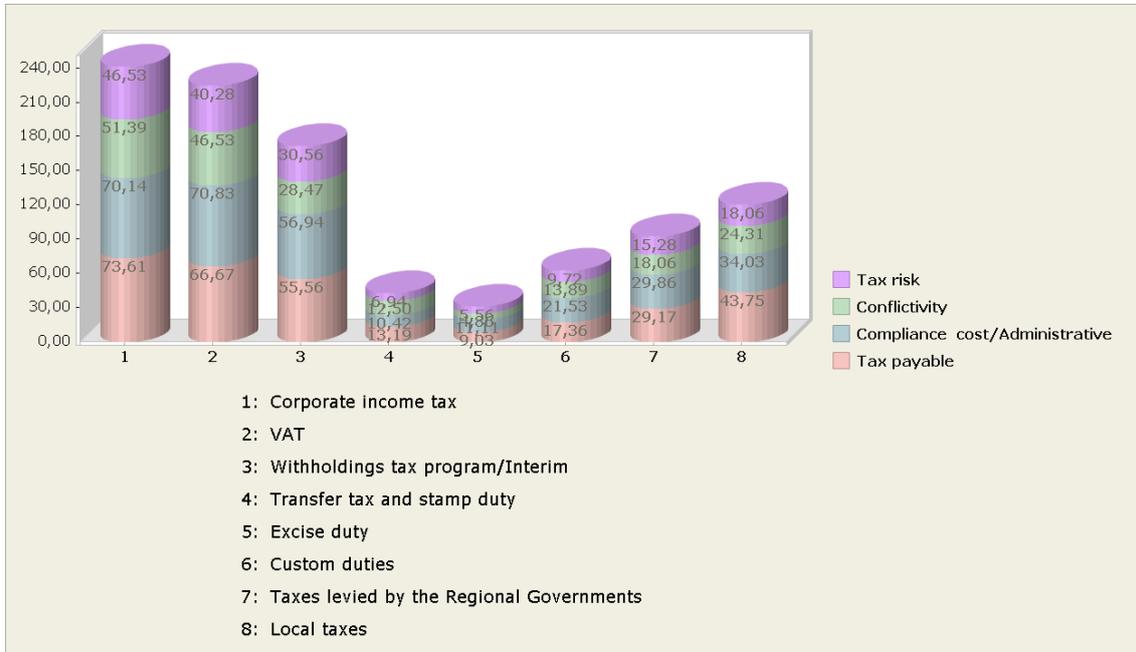


- Distinguishing by sectors of activity, the commercial services and construction sectors tend not to be very satisfied, whilst in the industrial sector the atmosphere is more positive in this respect.
2. The *degree of knowledge of the Spanish tax system* they consider they have is high, (93%), as befits professional experts in this field, the majority (64%) answer that they have adequate knowledge and one out of every three considers that they have vast knowledge (29%).
 3. The *general evaluation of the tax system*, awarding marks from one to ten, is quite satisfactory; nearly three out of every four interviewees awarded marks of between five and seven.

- Regarding the level of general satisfaction, for those who answered “quite satisfied” or “extremely satisfied”, the average rises to 6.63 whilst for those who answered “not very satisfied” or “not at all satisfied” the average falls to 4.82. A consistency is observed which confirms the validity of the question.
4. Continuing with *the evaluation of the burden of different tax items* in terms of tax payable pressure, administrative compliance cost, degree of conflictivity and the risk entailed by the tax compliance thereof:
- The greatest burden in terms of **tax due** is indicated in corporate income tax, followed by VAT, with transfer tax and stamp duty, excise duty and custom duties being the least burdensome.
 - In entities from the financial services area, the evaluation of the burden in respect of transfer tax and stamp duty is higher.
 - In turn, in entities from the commercial services area, the burden of custom duties is greater.
 - In the evaluation of the burden in terms of **compliance cost**, a pattern similar to the one seen for tax due is repeated since the most onerous items are corporate income tax and VAT. Comparatively, there is a certain variation in those stated as less burdensome, adding transfer tax and stamp duty together with excise duty.
 - The trends in valuations are similar in parent companies and subsidiaries, in entities with tax departments and those without.
 - As concerns the **conflictivity** that these taxes present, the average evaluation is low in five of the eight, considering the majority that they imply little or no conflictivity (between 60 and 80% of the total). This is the case for local taxes and taxes levied by the Regional Governments, custom duties, excise duty and transfer tax. Contrasting with the above, corporate income tax, VAT and withholding tax program have the highest level of conflictivity.
 - The characteristics of the entities influence this evaluation, since those that belong to the sector of financial services tend significantly to give more importance than the rest to the conflictivity of two tax items: transfer tax and stamp duty and taxes levied by the Regional Governments.
 - The results show that the **tax risk** for the tax items indicated above as having the highest level of conflictivity is rated as greater. The similarity in replies reflects a logical consistency and therefore proves the validity of this block of questions.
 - In turn, there is a higher rating of the tax risk for excise duty amongst the entities that engage in commercial services.
 - To close this section, a **synoptic vision** of the answers in the four sections– tax burden , compliance costs, conflictivity and tax risk –is presented in the figure

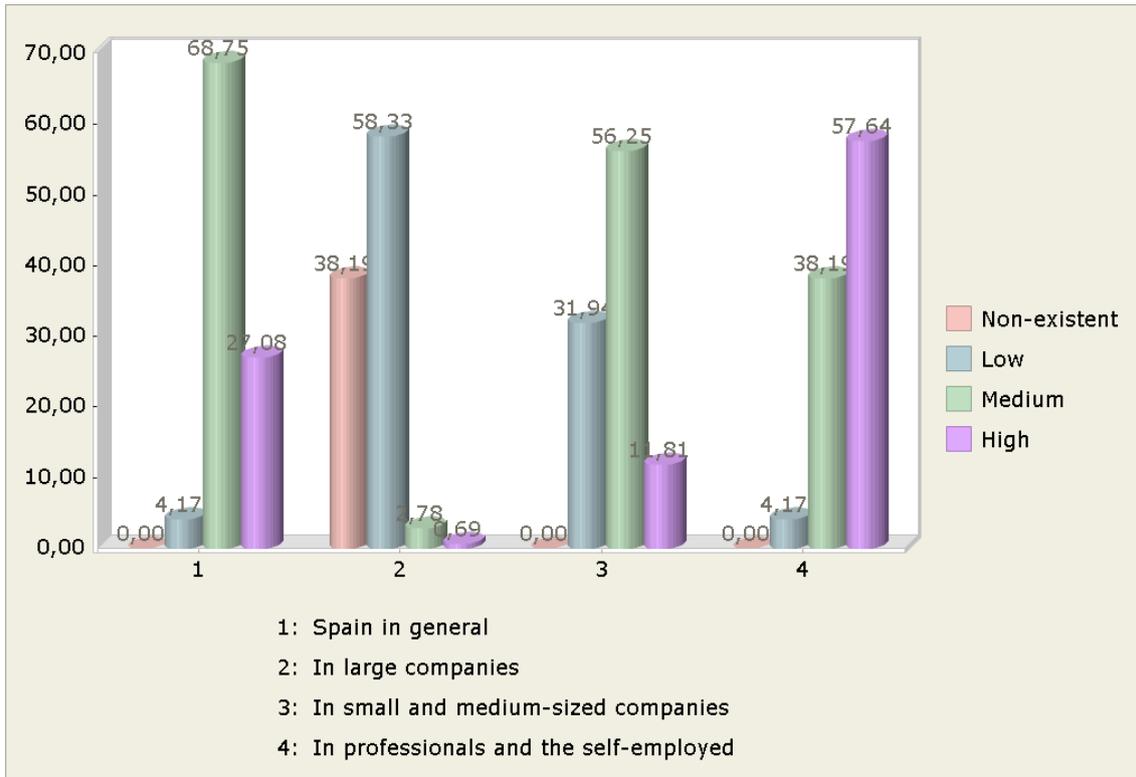
below which permits a better analytical comparison. As demonstrated, together with the three main concepts stated, a joint high burden is allocated to local taxes and taxes levied by the Regional Governments.

Figure 6 – Percentage of replies in the categories high and sufficient tax burden added up. Comparison of replies regarding tax risk, conflictivity, compliance cost and tax payable (Base: 144).



- The questionnaire includes questions relating to *submerged economy* thinking mainly in terms of fraud or tax evasion. The tendency observed was to estimate a different degree of submerged economy depending on the type of economic agents: large, medium-small sized companies, professionals and self-employed in Spain.

Figure 7 – Level of submerged economy considered as existing in large, medium and small-sized companies, professionals and the self-employed in Spain.



- For nearly all the interviewees (95.83%) there is high presence of submerged economy in Spain; for 68.75% the presence is considerable and nearly one out of every three (27.08%) considers the level of submerged economy to be high.
- Regarding the level of submerged economy in *large companies*, only 3.47% answers that the level is high or medium, the majority consider the level to be low or non-existent (96.52%).
- As concerns small and *medium-sized companies*, the majority answers medium or high (68.06%), leaving one third of the interviewees who consider the level to be low (31.94%).
- The existence of submerged economy among *professionals and the self-employed* has been rated in a similar manner, for 95.83% of the interviewees the level is high or medium.
- Nearly all the interviewees (84%) state that the existence of a *submerged economy increases the tax burden* of the rest of the taxpayers, since only 16% answers that the increase in burden for this reason is slight or non-existent.
- When comparing the *permissiveness of Spanish society towards tax fraud* with other territories of reference, on the whole Spain comes across as more permissive than other Western European countries (65.9%) and North

America (64.9%), but less permissive than companies in Latin America (73.9%) or North Africa (73.6%).

6. Regarding *entities that provide tax advisory services* to large companies in Spain, nearly all the entities represented in the sample have received external tax advice at some time (95%).

- Taking the last three years as reference, 85% of all the companies that received tax advice (n=137) required such services several times a year, 8% only once a year and almost 7% less than once a year.
- The opinion of the majority (91.97%) is that nowadays it is “quite necessary” or “very necessary” (55.47% and 36.5%) for companies in Spain to receive these types of advisory service.
- The usefulness of the above external advisory services is considered as high (75%), considering *the recent occasions* they received such services, 58% of the interviewees consider that the tax advice received facilitated or improved their relationship with Administration and 17% consider that their relationship with the Administration improved greatly.

7. When talking about the general evaluation of the tax system, the majority of interviewees expressed their concern about the current system’s emphasis on the collection of taxes by the Tax Administration, which, in the opinion of some interviewees, contributes to an inadequate application of the tax rules by the Administration:

- As a result of this need to levy taxes and increase tax collections to meet the ever-increasing volume of expenses, the interviewees have considered that there is no long-term design of the system as a whole, which results in a complex and inefficient system in the sense that there is no predictability. Certain interviewees cite as an example of this lack of predictability, due to collection needs, the entire group of tax benefits related to investments in the purchase of companies that have been eliminated or whose application has been deferred, although the elimination may also be due to other reasons.
- Certain interviewees consider that at legislative level, the system is correct, but they consider that the negative evaluation of the system lies in its administration, i.e. when the rule is applied by the Tax Administration.
- One interviewee literally stated: *At global level, I have to admit that the Tax Administration has improved tremendously in recent years, mainly in the area of tax compliance, the Tax Audit Department has not evolved in this respect, ..., because of the problem of the failure to collect taxes, there is ever-increasing pressure, and ... burden on taxpayers, especially the part that corresponds to me in a large company.*

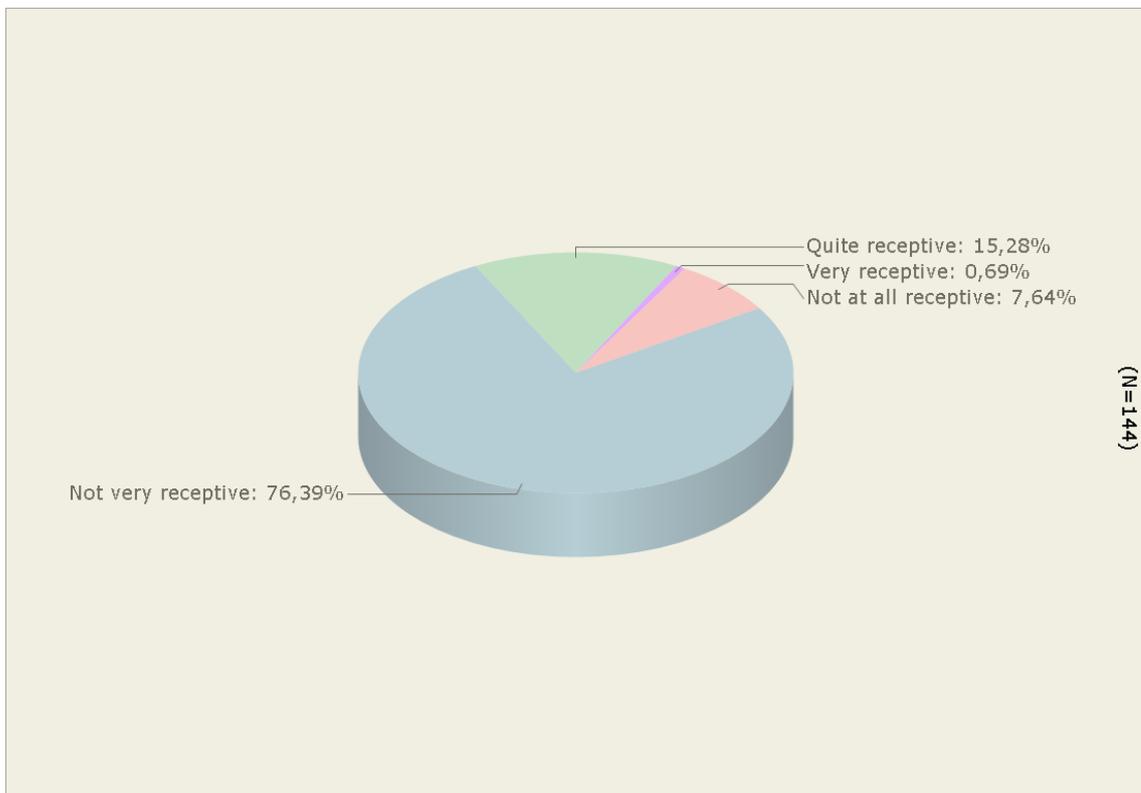
8. With respect to the set of questions on submerged economy, the opinion of the interviewees is almost unanimous on the need for administrative action to focus more on the sectors where this reality of submerged economy is present –medium and small sized companies and professionals and the self employed- and on the actual tax fraud. A speech is extracted which highlights this concern made apparent in the survey: *Tax fraud is not in large companies, large companies should be subject to highly agile and rapid tax audit processes performed by the Tax Authorities each year, thus releasing a huge volume of resources in the Tax Administration to review the submerged economy and actual tax fraud.*

Analysis of the tax system at legislative level

The survey covers issues relating to the drafting of Laws and regulations on tax matters and the diffusion and interpretation of the same.

1. Starting with the evaluation of the process of public consultation, 59% of the interviewees consider to be adequate or sufficient the information they receive on the approval processes of new laws or regulatory tax rules.
2. According to 84% of the interviewees, the Administration is not very receptive or not at all receptive to requests from business organisations. In this opinion there is general agreement, there are no variations in replies between companies that are parent companies and those that are not, those that have or do not have their own tax department, or between the different economic sectors.

Figure 8 – Degree of receptiveness by the Administration to proposals from the representative organisations

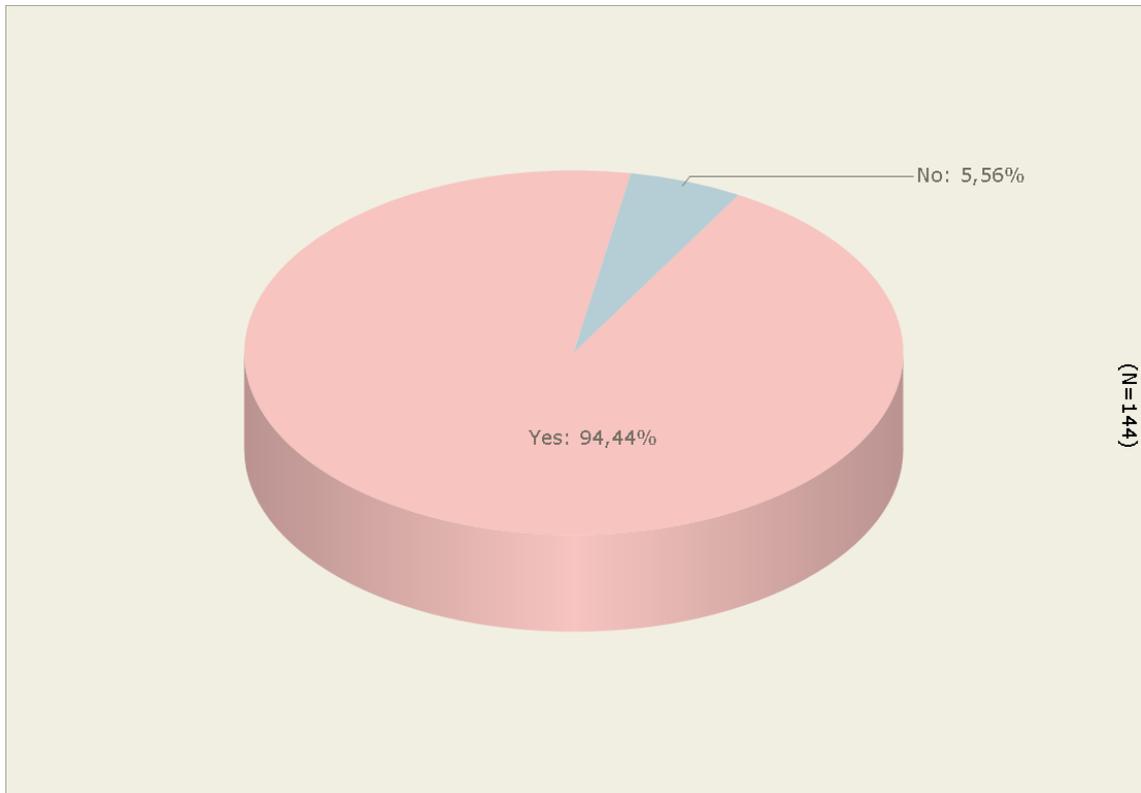


3. As concerns the process of drawing up new rules, 78% of the interviewees consider the degree of stability in tax rules as low or non-existent.
 - Those which engage in financial services are more critical in this respect since 93.75% of the interviewees from this sector consider the degree of stability of rules in Spain to be low or non-existent.

4. The *time periods for adapting to changes* in the legislation are considered as not long enough by 81.25%: while for 59.72% these periods are not very long and for 21.53% they are far too short.
 - All of the head or senior executives of legal departments in companies consider that time periods are not very long or far too short.
5. As concerns the *retroactive application of rules or interpretative criteria* by the Administration: for the majority (63%) the Administration does not apply the new rules retroactively or does so to a limited extent.
 - Having their own tax department seems to influence replies, since companies that have a tax department are more likely to consider that the Administration retroactively applies new rules or interpretative criteria to great extent or to some extent (43% among these and 37% in the total).
6. With respect to the influence of *the characteristics of the tax rules on the investment-related decisions* of the companies:
 - 57% of the interviewees consider that the retroactive application of the rules either hinders or reduces to some extent or to great extent any investment-related decisions of the company.
 - This percentage increases to 63% who consider that the retroactive application of the interpretative criteria also produces this effect to some extent or great extent.
 - The lack of certainty regarding possible changes in the rules also hinders any investment-related decision to some extent or great extent for 76% of the interviewees.
 - In companies with activities abroad, the opinion that their investment-related decisions are hindered to a fair or great extent is significantly reduced. Also, the issue of retroactivity of the new rules matters less to these companies.
 - 94% of the interviewees that engage in financial services consider that the lack of certainty of the rules hinders to a fair or great extent any investment-related decisions. By contrast, the construction sector is where this percentage is the lowest (55%).
7. When tax rules are amended or replaced as consequences of judicial decisions, 54% of the interviewees consider that the criteria stated by the courts are taken into account when interpreting the replaced rules.
8. 53.47% of the interviewees consider that the Spanish tax rules have been duly brought into line with the provisions and interpretative criteria of EU institutions.

9. As concerns the need to simplify and clarify the tax rules, there is absolute agreement amongst the interviewees (94%) that the rules need to be simplified and clarified.

Figure 9 – Need to simplify and clarify the tax rules



10. As concerns the *diffusion to the taxpayer of tax novelties and interpretative criteria* the results show that, in general, such diffusion is considered insufficient for 70% of the interviewees. And, especially, in the case of the interpretative criterion – where the percentage reaches 85%- where the diffusion seems to have special relevance for the interviewees.

- In companies with a Finance-Tax Department, the interviewees are slightly less critical in this respect, since the percentage of those who consider the diffusion to be sufficient increases to 36%.

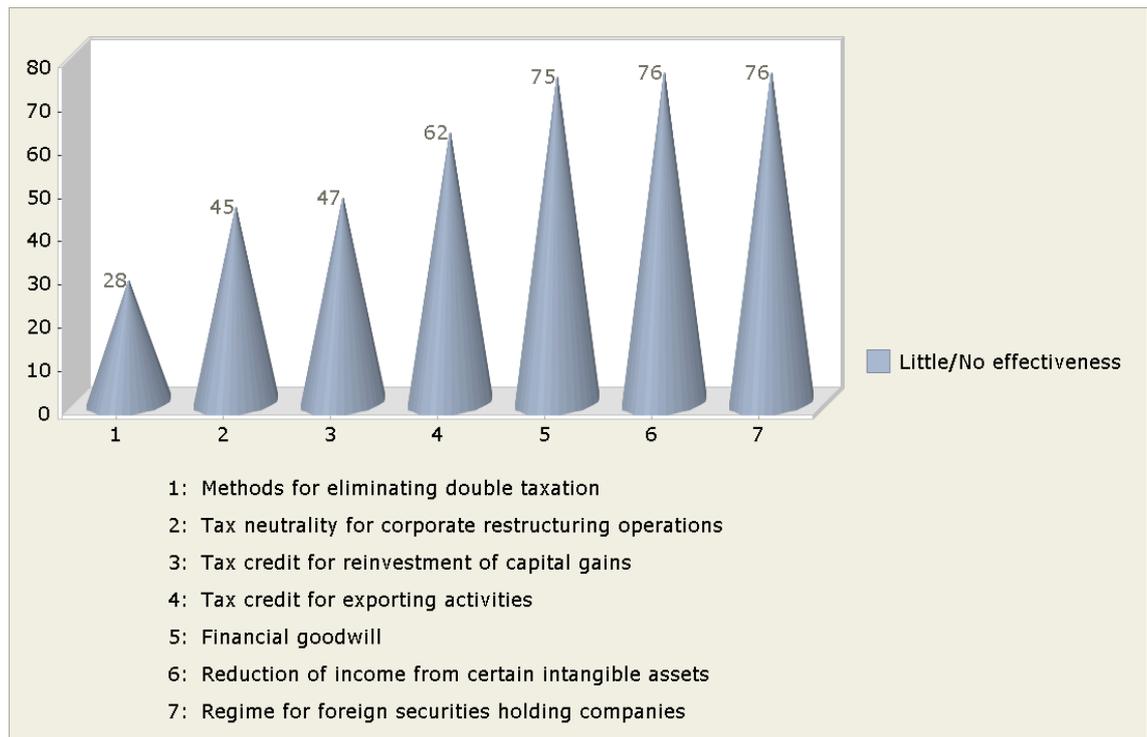
11. With respect to the *system for filing requests for rulings with the Directorate General for Taxes*, 93% takes into account the criteria of the Directorate General for Taxes in replies to requests for binding rulings.

- Among the cases in which the criteria consulted with the DG for Taxes are taken into account, (n=134) 66% considers that there is “reasonable consistency” in the criteria contained in such replies.
- For 80% of those which taken into account the criteria of the DG for Taxes, such replies provide practical solutions to the problems of interpretation considered.

- However, in 77% of the cases the time period that lapses in issuing the replies is considered inadequate.
12. With respect to the *system of tax benefits* under the Spanish tax system, 80% of the interviewees considers the tax advantages that favour the location of companies in Spanish territory to be insufficient.
13. The majority of the interviewees considers insufficient the advantages or tax benefits that favour the internationalisation of the business activity (68%), with only one third considering such benefits and advantages to be sufficient.
- In the entities that are established internationally, the interviewees are more critical with the existing benefits and, to a greater extent than the other entities, they consider such benefits as insufficient.
14. 70% of the interviewees also consider that the subsequent application by the Administration has given little or no effectiveness to the tax incentives.
15. Consequently, in the evaluation of the *influence of the tax incentives* on boosting certain activities when deciding the activities carried on by the company, a high percentage considers that the incentives have had little or no real effect when deciding the activities carried on by the company.
- Specifically, when asked about the impact of different specific incentives on the activities carried on by the company, the percentage of interviewees that considered the actual impact to be none or slight were as follows : event sponsorship (76%), incentives for exporting activities (72%), renewal of company assets (61%), R+D activities (58%).
16. Specifically, regarding the effectiveness of the administrative application of different tax incentives:
- Only the methods for eliminating double taxation (foreign tax credit /exemption) are considered effective incentives after the administrative application (65% answered “quite or very” effective).
 - The effectiveness of tax neutrality for corporate restructuring operations is lower (49% “quite or very” effective) and the tax credit for reinvestment of capital gains (47% “quite or very” effective).
 - 62%, the effectiveness of the tax credit for exporting is low or non-existent.

- As extreme cases, the effectiveness of the regimes for financial goodwill allowance, reduction in income from certain intangible assets allowance and foreign securities holding companies regime is low or non-existent (75-76%).

Figure 10 – Percentage of “little” or “no effectiveness” given to several incentives by the administrative application (N=144).



17. Interviewee speeches reveal with practical unanimity the complexity of the tax system and the need for its simplification; the complexity is usually identified with the constant approval of laws and its consequential variability:

- Certain interviewees consider that the complexity of the system actually derives from the numerous special regimes or exceptions to the general rule, which despite providing fair solutions to particular situations, by introducing such degree of complexity they also produce an emulator effect, with the ensuing loss of efficiency of the system. Therefore, they are staunch defenders of a simpler or less complex tax system with which improved levels of compliance are attained, even if this proves, to a certain extent, to be detrimental to the fair solution provided to the specific case.
- A large number of the interviewees consider the continuous amendment of rules as a complexity factor, which in certain cases can result in not knowing with certainty what the applicable rule in force is. Thus, certain opinions extracted read literally as follows:

I think this is an area that Spain would have to greatly improve and learn from other countries because we have a great tendency to change rules with excessive frequency, in other words, we blame the Spanish tax rules for being complex, which they are, but worse than being complex is their variability, which generates legal insecurity.

Any change in criterion has to be applied only in the future and has to be exceptional and perfectly founded, i.e. there must be a clear set of game rules ... I think that must be applied in drafting the laws, the laws must be clear and technically well constructed, since we are forever changing them, and in the clarity and knowledge of the interpretative criteria, and in the application criteria used by the Tax Administration, since once again there is a long road ahead.

- The degree of complexity is also linked to the territorial organisation of Spain, which affects the level of competitiveness of the companies in the sense that there is no single market. The opinion of an interviewee is extracted:

... with respect to corporate income tax, for example, we have the added complication of provincial rules and regulations for companies that operate in the whole of Spain, which is another of the tremendous burdens placed upon the shoulders of companies, which have to apply 5 different systems, that of Guipúzcoa, Navarra, Álava, and Vizcaya, in addition to that of the Common Territory with strange calculations and diversifications which do nothing but add formal burdens.

18. In the in-depth interviews conducted with professionals, the program of replies to requests for binding rulings directed by the Directorate General for Taxes has been analysed; the almost unanimous opinion is that it does not work as well as desired:

- In a certain interview, it is stated that the Directorate General for Taxes fails to issue a quick reply vis-à-vis a new de facto situation or a new legislative framework, although it is recognised steps are being taken in the opposite direction, i.e. rapid solutions are being given due to the need to confront the new economic scenarios, thus, for example, in all the banking restructuring processes that have taken place recently. The opinion of a certain interviewee is as follows:

Therefore, to obtain a ruling from the Administration with respect to the procedure, the reflection process and maturity of the process is extremely long, i.e. companies need to take immediate decisions, that is what is required of us, ...what you can't do is wait a minimum of 6 months to have a decision ...

- A certain interviewee has also stated that the failure to issue a quick reply has to do with a lack of personal and material resources in the Directorate General for Taxes. Literally:

It actually has to do with personal and material resources. For the taxpayer, the replies do not arrive on time. The time periods stated in the law for replying to the party concerned are not met, the reply always arrives late. For the others, the request for a ruling lacks specification, only the reply is published and not the query, ...

19. In the set of questions that were presented to the interviewees on tax incentives and their degree of effectiveness in practice, the interviewees coincided in considering that the Administration uses very restrictive criteria for interpreting the rules that establish the tax benefits. One interviewee stated:

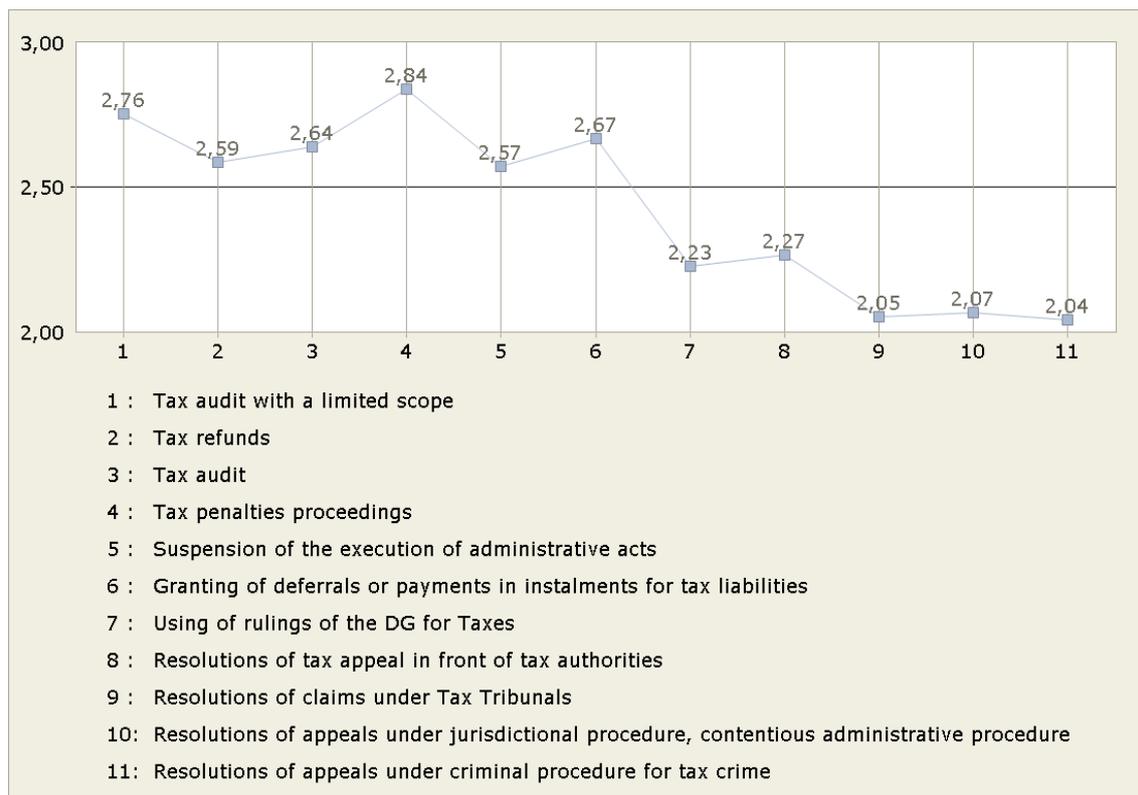
From what we are seeing, in R+D+i, sponsorship etc, the Inspectorate turn up and their criteria is that absolutely nothing is deductible, i.e. they apply such restrictive criteria that in the end the case goes to court and, in many cases, the Inspectorate loses because evidently, (...) if the legislator has established a tax incentive for a certain activity, it is there to be applied.

Application of the tax system

1. The general evaluation of the *degree of compliance with time periods by the Administration and Courts* in different administrative and judicial proceedings is, in general, not very positive since, on average, in nearly all cases, the rating given by interviewees is below 3 (score that would be the equivalent of considering that the time periods are complied with to some extent). Specifically, amongst the eleven procedures proposed, six receive an average rating of between 2.5 and 2.84 and five procedures fail to reach a 2.5 average.

- The two procedures in which it is considered that there is greater fulfilment with the time periods are tax penalties imposition proceedings and tax audit with a limited scope proceedings and compliance tax program proceedings in general.
- By way of contrast, there is less fulfilment with the time periods in resolutions of disputes under Tax Tribunals, resolution of appeals under Justice Courts and criminal process.

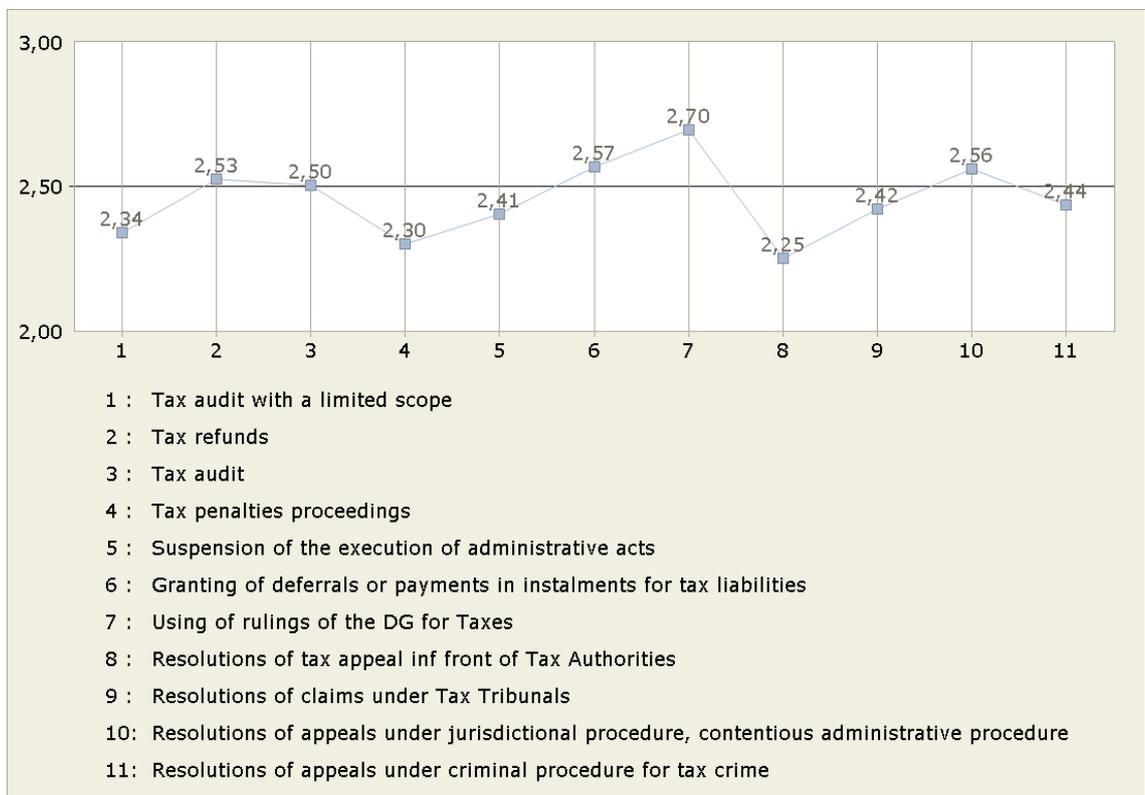
Figure 11 – Profile of the average evaluation of compliance with time periods in different administrative and judicial proceedings (Scale: 1=None, 2= Scarce , 3= Sufficient, 4= Vast)



2. When rating the *grounds for administrative cases and judgements* delivered in relation to those same cases, less differences are observed than in the case of compliance with the time periods and the suitability of several of these procedures is evaluated in a similar manner.

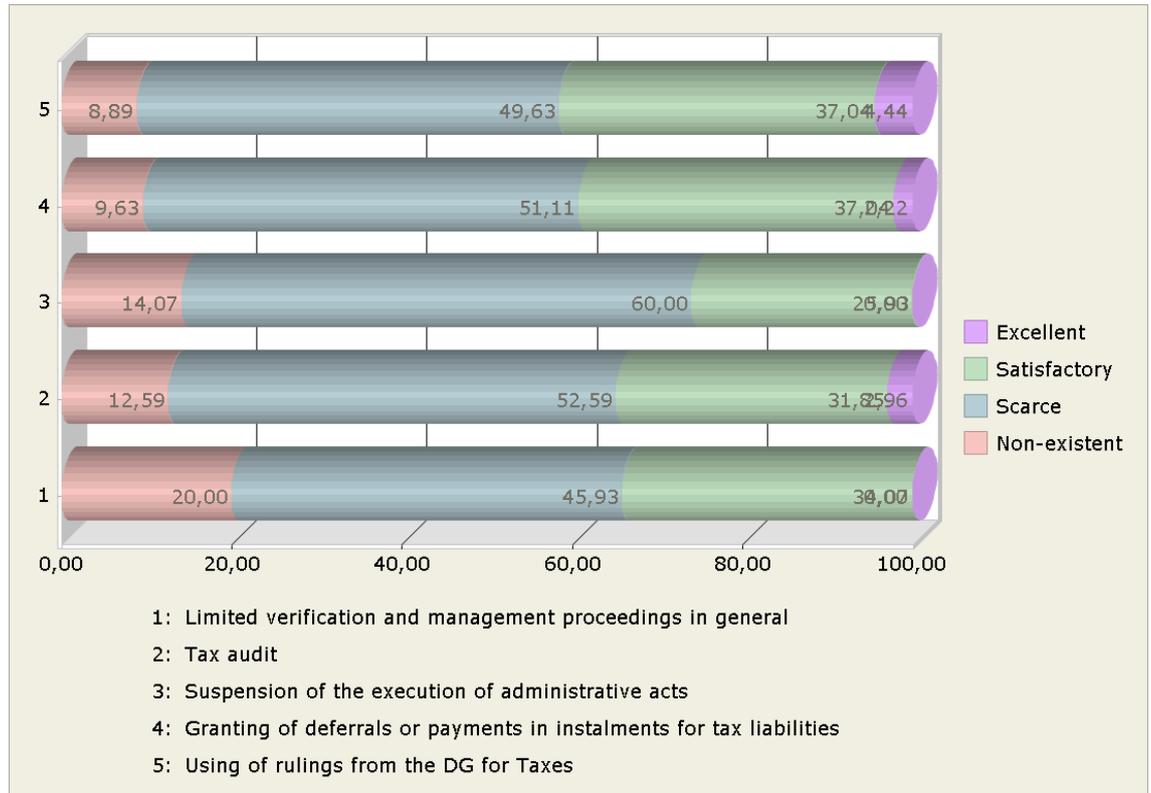
- Only five of the 11 procedures rated exceed 50% of fairly adequate or very adequate grounds:
 - Tax refunds, tax audit proceedings, granting of deferral or payment in instalments, rulings from the DG for Taxes (the best rated with 65.69%), resolution of appeals under jurisdictional proceedings.
- Amongst those that do not exceed 50% of adequate motivation are tax audits with a limited scope proceedings and tax compliance proceedings in general, tax penalties proceedings and appeals for reversals, with figures of no motivation or little motivation of 12 and 42%, 17 and 37%, and 11 and 52% respectively (joint maximum of 63%).

Figure 12 – Average rating of the motivation for administrative acts and judgements (Scale: 1=Not at all adequate, 2= Not very adequate, 3= Fairly adequate, 4=Very adequate)



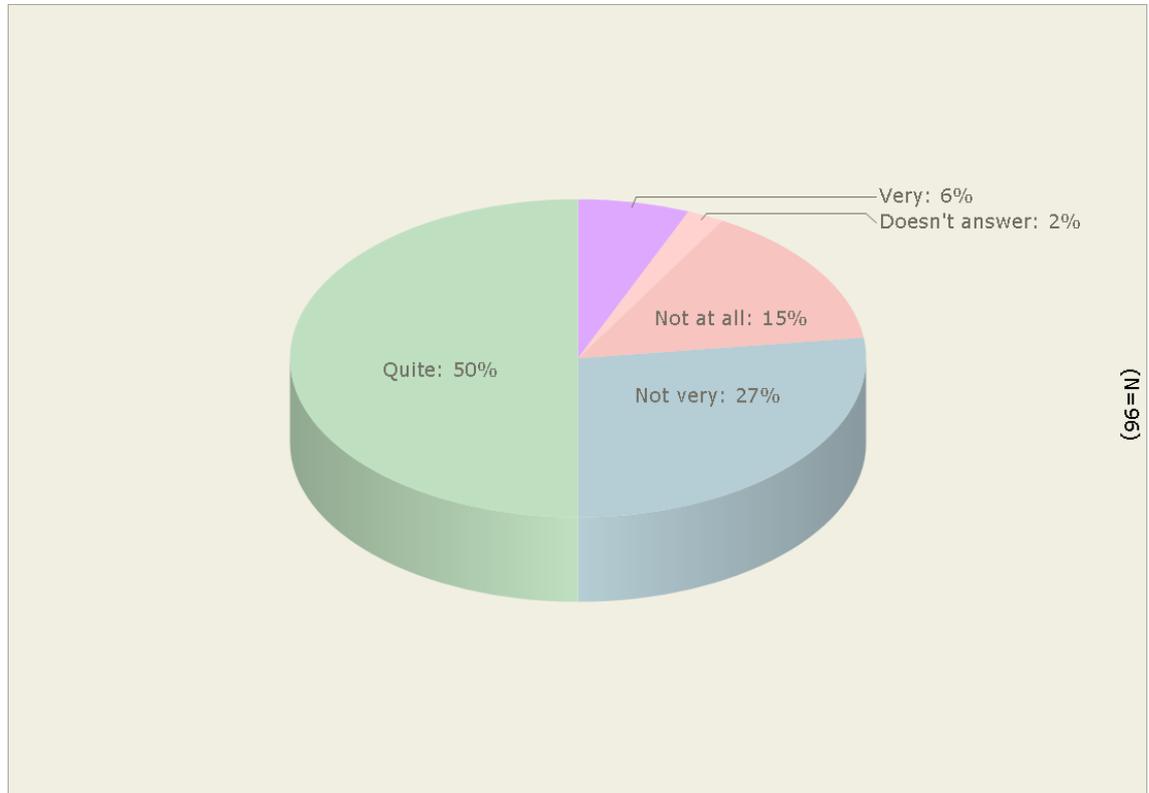
3. The Administration, in its application of the tax system in different administrative proceedings, is seen as *not very willing to dialogue and not very open*; between 60% and 75% of the interviewees consider that there is little or no dialogue and that the Administration does not adopt a very open approach in these proceedings.

Figure 13 – Position of dialogue and openness in the application of the tax system in relation to certain proceedings (Base: 137).



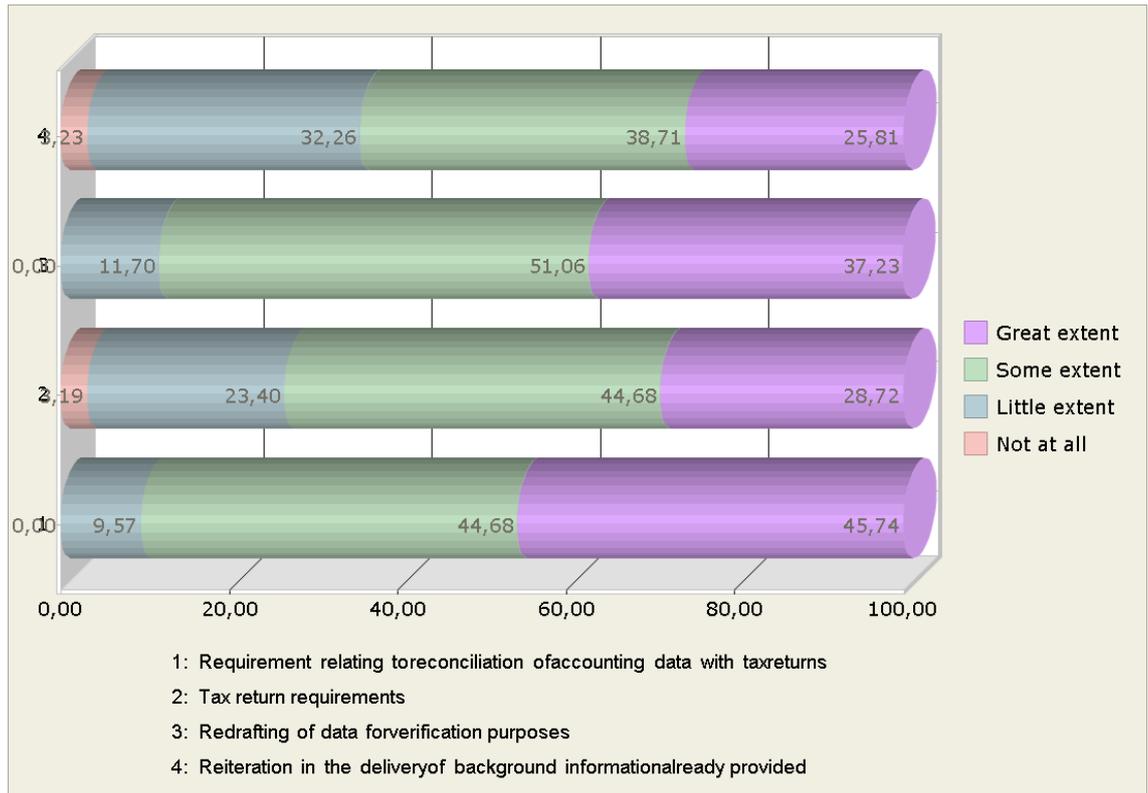
4. Almost 70% of the entities underwent *tax audit proceedings in the last 4 years*. This proportion increases in the case of parent companies of groups of companies (78%) and decreases amongst those that do not have a tax department, where 54% have undergone an inspection.
 - The volume of information and background supporting evidence requested in a tax inspection is not considered excessive, since over half of the interviewees consider it to be sufficient or proportionate (56.25%).

Figure 14 - Volume of information and documentary evidence requested by the Inspectorate (Base: an inspection has been carried out): Do you consider the volume of information and documentary evidence requested in a tax inspection to be proportionate?



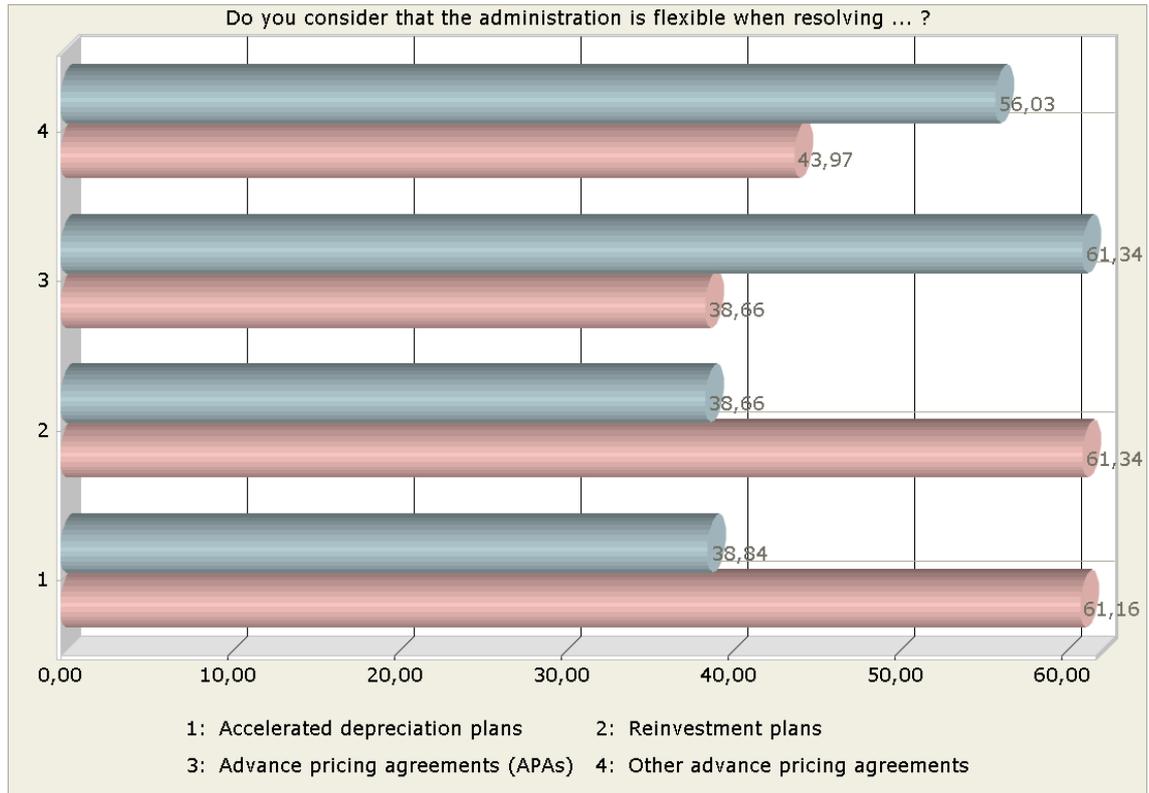
5. Very unanimously, the requests from the tax auditor for information on certain matters are considered to shift, to some extent or great extent, the inspection duty into the company.
 - Specifically, this is the evaluation with respect to requirements for the reconciliation of accounting data with tax returns (90.42% fair and great), redrafting of data for verification purposes (88.3%), requirements relating to tax returns (73.4%) and somewhat lower in those of reiteration in the delivery of background information already provided (64.5%).

Figure 15 - Extent to which tax inspection duties are shifted to the company in specific cases (Base answering the question : 96).



6. The frequency of the *safeguards measures* adopted by the Administration to ensure the collection of tax liabilities is seen as low or non-existent in 43.8% of the cases and sufficient or high for 54.75%.
7. Regarding *procedures of agreed solutions or advance pricing agreements* contained in the legislation in force, the majority consider that the number of such solutions is insufficient (58%).
8. With respect to whether or not the Administration is flexible when resolving certain proceedings, the majority consider that the Administration is flexible in relation to plans for accelerated depreciation (61.16%) and reinvestment plans (61.34%), but that it is not flexible when dealing with advance pricing agreements (44%) especially advance pricing agreements in transfer pricing in which only 38.66% consider that it adopts a flexible approach.

Figure 16 – Opinion on whether or not the Administration is flexible when resolving different proceedings (Base: 137).



9. Nearly all the interviewees consider that the *effort to complete tax forms* involves a major part of the company's general administrative management both in the case of the systems for charging VAT, and in the obligations to withhold certain taxes and obligations to provide third party information (82% coincide in the reply in the three items).

- Similarly, the opinion with respect to on request information for specific cases (80%) and obligations to report transactions contained in the registers books held by companies (76%).

10. The results of the survey show that the e-administration program *electronic systems* conducted by the Tax Administration are rated very favourably: for 91.91% the systems are quite or very favourable.

- The change entailed by the introduction of the system of electronic communications is also rated favourably since for 69.86% the change is considered as favourable or quite favourable.
- In keeping with the above results, the degree of modernization of the Tax Administration in general (virtual office, access to electronic files, etc.) is quite adequate for 81% and very adequate in 15% of cases.

11. Those that were interviewed personally highlighted with absolute unanimity the technological advances attained by the AEAT, making it a pioneer and leader compared to the Tax Administrations of other countries. Thus, one interviewee stated:

The Tax Administration State Agency is an organisation that has processed a huge number of general proceedings (...) making it a very efficient organisation, because it is an organisation that has been operating continuously for a long period of time, 20 years ago when it was created, it committed itself to IT and data processing.

12. Nearly all those that were interviewed personally highlight the economic cost entailed in the field of reporting and collaboration duties with Tax Authorities, disputes arising in this field, which in certain cases is accompanied by the instigation of tax penalty proceedings, since breaches are largely due to interpretative criteria or the change in legislation which has rendered impossible, almost simultaneously, a change in IT processes.
13. The interviewees also highlight the need to carry out tax audit proceedings in a more immediate timeframe and not to exhaust the lapsing period, as well the duration of the tax audit proceedings with the high cost both for companies and the Administration.

All actions that promote immediate knowledge of tax problems and the online resolution of tax issues should be encouraged, without reviewing four years later what was done and why.

Extremely long tax audits proceedings which result in interpretative differences which make you end up in court involved in proceedings which last 10 or 12 years and which in many cases end with a favourable ruling for the Tax Authorities and in many others with a favourable ruling for the taxpayer, all this has entailed a huge cost for the company and a huge cost in terms of time and resources, also for the Administration.

14. One of the main constants in the interviews conducted has centred on the timeliness of the Forum for Large Companies (tax management risk programs or enhanced relationships programs), with quite a lot of unanimity on the acceptance thereof, as well as dissenting opinion on its design in Spain. The interviewees even highlighted that this initiative was in tune with those in other neighbouring countries and which are boosted in certain international forums, such as the OECD.

The interviewees have expressed the need for dialogue. Thus, certain opinions are extracted:

I think ..., that the Administration should adopt a collaboration scheme (enhanced relationship) and accept that companies are collaborating entities carrying the entire weight of tax management, and change the relationship to a relationship of co-operation, collaboration and assistance.

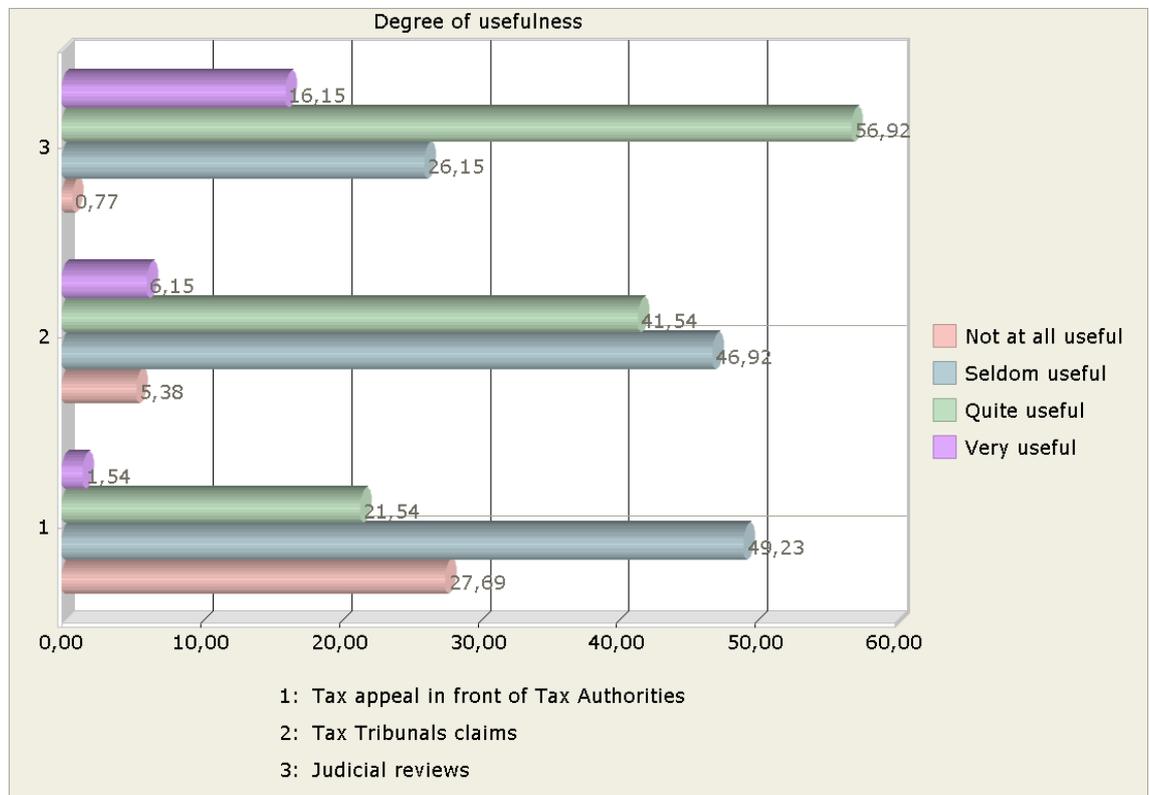
A special legal statute for collaborating entities which establishes the framework for this relationship based on certain principles ..., this has been considered for some time and a small step has been taken in the creation of the tax forum for large companies, but I think that there is still a long road ahead.

Administrative and judicial review procedures

1. As concerns the evaluation of the degree of usefulness of the proposed *review procedures*:

- The appeal for review is considered as not very useful or not at all useful by 76.92%.
- Tax Tribunals claims appear to be not very useful or not at all useful in 52.3% of the cases, whilst there are considered as quite useful or very useful for 47.69%.
- At the other end of the spectrum, judicial reviews are considered by the majority as a procedure that is quite useful or very useful (73.07%).

Figure 17 - Usefulness of the different review procedures (Base: 136).

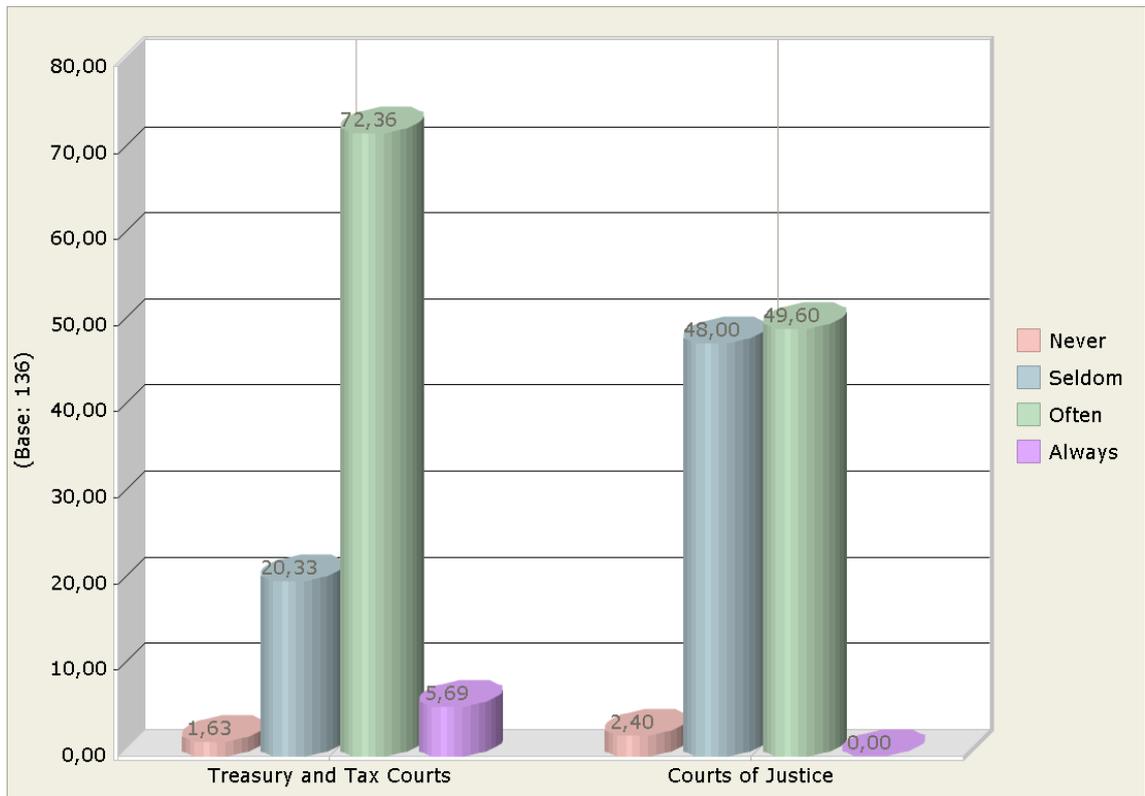


2. The level of efficiency attributed to the existence of a first instance tax Tribunal and a second appeal Tax Tribunal (local and central Tribunals, respectively) is low, since 77,2% rates its efficiency as low or non-existent.

3. For the majority (78.05%), the Treasury and Tax courts abide by the *interpretative criteria* issued by the Administrative bodies quite often or always.

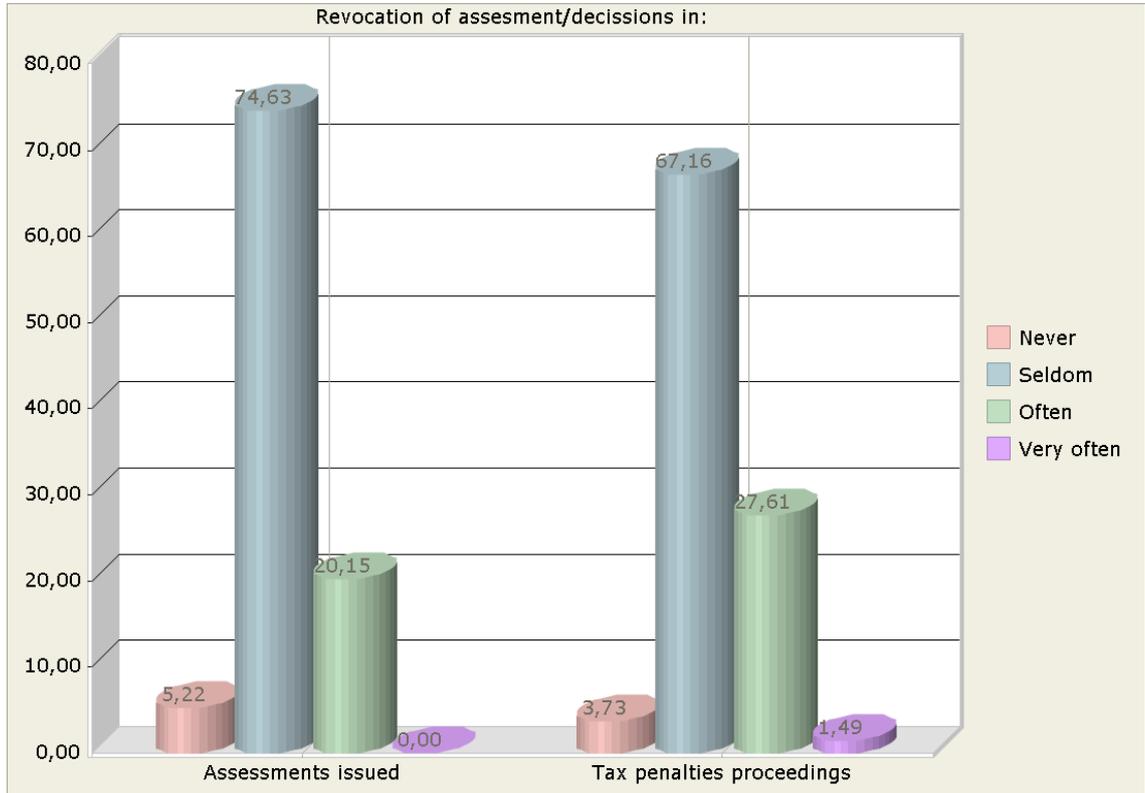
- In the case of Courts of Justice opinion is more divided since whereas 49.6% consider the Treasury and Tax Courts abide by such criteria quite often, 48% consider them to do so seldom or never.

Figure 18 – Frequency with which the Courts respect the interpretative criteria given by the Administrative bodies



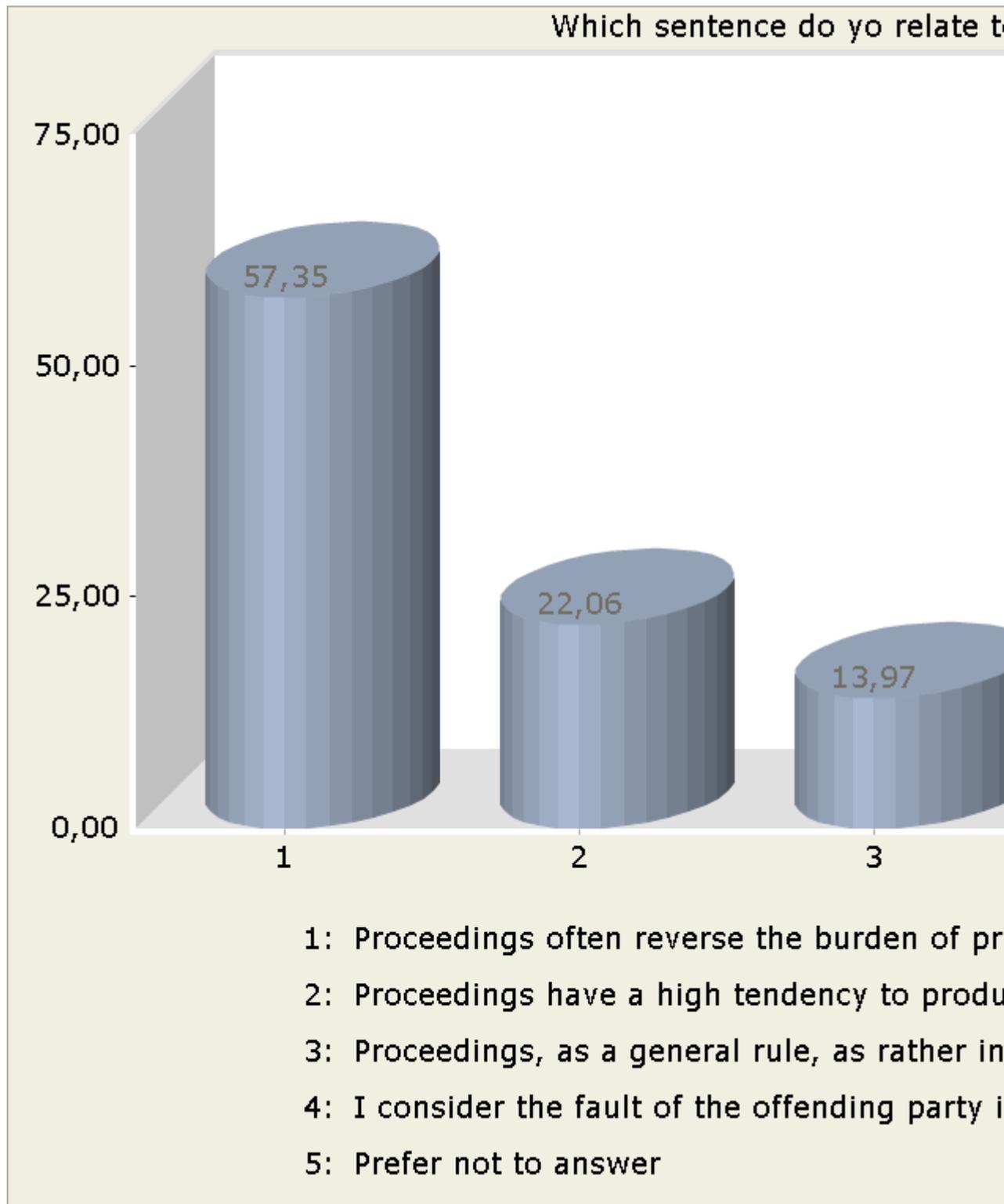
4. There is little or no revocation of administrative acts by the Treasury and Tax courts; in the case of assessments made 20.15% and in the case of tax penalties proceedings 29.10%

Figure 19 – How often do Treasury and Tax Courts revoke assessments/decisions issued by the Administrative bodies?



5. In an almost unanimous manner, *specialised jurisdiction on the interpretation* of tax rules is considered necessary (92%).
6. The majority has expressed the opinion that the Courts of Justice do not make adequate use of references for a preliminary ruling submitted to the European Court of Justice (66.18%).
7. Nearly nine out of every ten interviewees consider that it would be advisable to introduce alternative mechanisms for the resolution of disputes, such as for example, arbitration procedures (88.24%).
8. The majority opinion on tax penalties proceedings is that “the proceedings often reverse the burden of proof so that it rests with the taxpayer” (57.35%).

Figure 20 –Tax penalties proceedings



9. In matters of tax offence, only one third (35%) consider the number of tax-related proceedings directed to criminal proceedings to be proportionate.

10. Also the majority of interviewees consider that the commencement of the criminal process, without a preliminary hearing of the accused, entails, to a great degree, a loss of guarantees (76.47% to some extent and to a great extent).
11. 85.3% rates as quite necessary or very necessary the standardisation of the lapsing periods in administrative and criminal procedures.
12. The percentage that considers necessary greater specialisation of judges in matters of tax offence is higher (94.85% consider this necessary to some extent and a great extent).
13. Likewise, in the interviews conducted with professionals, the unanimity on the lack of confidence in the preliminary administrative review in respect of tax matters is perceived. With respect to the specialisation of the various reviewing instances, there is dissenting opinion; some consider this to be absolutely necessary and other consider that it should rest with the natural judge, although they all agree on the need for specific training in tax sphere.
14. In certain entities, the professionals state that there is a change in attitude of Spanish Courts of Justice, which are increasingly inclined to submit references for a preliminary ruling to the European Court of Justice .

Technical specifications

The research has been based on a combination of qualitative and quantitative social research methods to attain the objectives defined in the project, carrying out a survey administered to a representative sample of large companies together with qualitative fieldwork, and in-depth interviews conducted with nine heads of tax departments in the same types of company. It has been qualified as large companies those entities whose turnover in 2010 exceeded 50 million¹.

For the survey, a questionnaire has been administered using the Internet, programmed within the Gandia Integra system, from which the fieldwork and generation of the data files has also been managed. The technical specifications of the survey are as follows:

Commencement date of the fieldwork: 05/12/2011
Completion Date : 22/04/12
Universe: 1,697 (companies with a turnover >50 million)
Sample : 220 (broken down into 133 fully completed + 11 uncompleted and validated + 76 extensions to subsidiaries)
Sampling error: 2.43 for a confidence level of 95.45 and probability p/q=50.
Analysis and data processing : GandiaBarbwin v7 and Gandia Integra.

¹ In the case of finance companies and insurance companies the figures considered are those accounting data equivalent to turnover.

The contact ratio with respect to the sampling Universe is 92%. Telephone calls were made to all the entities to obtain the e-mail address of the head of the tax department and an access questionnaire e-mail was sent to 994 entities, 58.6% of the total number of contacts. A number of 190 (11%) interviews were turned down after contact and 92 interviews (5.4%) were cancelled for various reasons (call not put through by the company's switchboard, the company belonged to a group already interviewed, no tax department, etc.).

For the qualitative fieldwork, participant selection was established on the basis of ten interviews distributed in three sectors of economic activity, choosing in each of the sectors entities that stand out due to their importance and sector representativeness. Following this principle, theoretical and actual sampling are distributed as follows:

Sector/area of activity	Theoretical sampling	Actual sampling
Industry/Services /Agricultural : <ul style="list-style-type: none">- Construction- Commercial and services sector- Energy sector	7	1 3 2
Financial sector	2	2
Insurance	1	1
Total:	10	9

The interviews were conducted between the months of March and April 2012. For the majority of interviews, the researchers went to the offices of the informants and one interview was conducted on the University's premises.