Explanatory note on the Spanish "solidarity tax"

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In our working paper on Taxing Extreme Wealth we estimate what countries around the world could gain from progressive wealth taxes. We base our analysis on the example of Spain's solidarity tax or "Temporary Solidarity Tax on Large Fortunes" ("*Impuesto Temporal de Solidaridad de las Grandes Fortunes*") and apply the progressive rates of this tax to net wealth levels per country.

In Spain, overall wealth tax revenues have been rising consistently in recent years, and so has the total stock of wealth and the number of superrich in the country. The revenue collected under the solidarity tax has however drastically decreased in 2024. For good reasons, as the tax's backstory shows.

In 2011, the Spanish national government introduced a temporary net wealth tax in response to the financial crisis. The temporary net wealth tax was renewed every two years until it was turned into a permanent tax as of 2021. Since 2021, the Spanish net wealth tax ("*Impuesto sobre el Patrimonio*") has been an annual tax, payable on the total value of net wealth owned on 31st December of each year.

Under the Spanish tax system, regional governments have the ability to implement tax credits and tax-free allowances that affect the calculation of the tax due by local residents. Certain regions like Madrid, Andalucía and Extremadura, have been using this competence to issue measures like a 100% reduction of the tax owed on taxable wealth. A 100% reduction completely erodes the national net wealth tax.

Because these regional developments undermined the widely supported policy of taxing the biggest fortunes and created unfair tax competition within Spain, the national government responded by adopting the "Temporary Solidarity Tax on Large Fortunes" or *solidarity tax*. The solidarity tax applies as a 'top-up tax': it is levied only to the extent Spanish Autonomous Regions are not using their ability to tax wealth under the national wealth tax. Apart from a higher threshold for tax exempt wealth, the solidarity tax mimics the original national net wealth tax, both with regard to taxable base and tax rates.

In our working paper we use the progressive rates of the Spanish solidarity tax/net wealth tax for our estimates. To account for the fact that different countries have different wealth levels, we use a per-country threshold for tax exempt wealth in function of the national wealth levels which roughly replicates the proportion of tax-exempt owners of wealth under the Spanish solidarity tax.

The solidarity tax served its purpose. As of 2024, recalcitrant regions modified the exemptions to the net wealth tax. As a corollary, the revenues collected under the solidarity tax plummeted, but the overall revenue collection of the national annual net wealth tax has increased significantly.

This only confirms the view which underlies our working paper that the Spanish wealth tax regime is an exemplary system of a healthy net wealth tax contributing to a flourishing economy, and an excellent benchmark for global estimates, be it based on the ‘solidarity tax’ or on the ‘net wealth tax’.