

# HOW DOES A FISCAL REFORM AFFECT ELASTICITIES OF INCOME TAX REVENUES? THE CASE OF SPAIN, 2003-2008

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## Abstract

This paper estimates the extent to which an exogenous change in income affects income tax revenues. We focus on the case of Spain over the period 2003-2008, as income tax there underwent a substantial reform in 2007. Using both an analytical method and a numerical simulation, we find a significant increase in aggregate income tax elasticities from 1.4 for 2003-2003 to around 1.8 for 2007-2008. The sensitivity of results to the presence of housing tax credits, non-equiproportional variations in income, changes in income inequality and fiscal drag is also considered.

**Keywords:** income tax elasticity, progressivity, tax rates, tax credits

**JEL Code:** H20, H24

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