

**METHODOLOGY TO
DETERMINE THE QUOTA OF THE
BASQUE COUNTRY FOR THE
FIVE-YEAR PERIOD 2017-2021**

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CHAPTER I

LEGAL REGIME AND VALIDITY OF THE METHODOLOGY

Article 1. Legal regime and validity of the methodology.

The Quotas for the Basque Country for the years 2017 to 2021 inclusive will be determined by the methodology established by the following articles, within the framework of the regulation laid down in Chapter 2, Part II of the Economic Agreement with the Autonomous Community of the Basque Country, approved by Law 12/2002.

Article 2. System.

For the purposes of the provisions in the previous article, the net Quota for the base year of the five-year period shall be determined, and said net Quota shall be updated for the subsequent years.

CHAPTER II

DETERMINATION OF THE NET QUOTA FOR THE BASE YEAR

Article 3. Determination of the Quota for the base year.

The net Quota for the base year of the five-year period from 2017 to 2021 shall be determined by applying the imputation index to the total amount of the non-assumed charges by the Autonomous Community, and by making the pertinent adjustments and compensations, all as provided for in the following articles.

Article 4. Charges of the State non-assumed by the Autonomous Community.

One. Charges of the State non-assumed by the Autonomous Community are those which correspond to competences which have not been actually assumed by the latter.

Two. To determine the total amount of said charges, the net budget allocation which, raised to State level, corresponds to the competences assumed by the Autonomous Community, as of the entry into force of the transfer established in the corresponding Royal-Decrees, shall be deducted from the total State budget expenditure.

Three. Among others, the following shall be considered non-assumed charges by the Autonomous Community:

a) The sums allocated in the General State Budget to the Inter-territorial Compensation Fund.

b) Transfers or subsidies granted by the State to public entities, provided that the competences said entities exercise have not been assumed by the Autonomous Community of the Basque Country.

c) The State debt interest payments and repayments.

Four. Imputation to the Historical Territories of their share in non-assumed charges shall be made by applying the imputation index referred to in Article 7 here below.

Article 5. Adjustments.

One. Without prejudice to the provisions in Articles 14 and 15 here below, the figures resulting from the imputation referred to in Section Four of the preceding article, shall be adjusted to improve the accuracy of the estimated income from direct taxation imputed to the Basque Country and to the rest of the State, pursuant to Article 55 of the Economic Agreement.

Two. The amounts resulting from the application of the adjustment regulated by Section One above shall constitute the Quota for each Historical Territory.

Article 6. Compensations.

One. From the Quota corresponding to each Historical Territory the following items shall be deducted for compensation purposes:

a) The imputed portion of non-agreed taxes.

b) The imputed portion of budget revenue not from taxes.

c) The imputed portion of the deficit in the General State Budget.

Two. The imputation of the items stipulated in Section One above shall be made by applying the imputation index referred to in Article 7 here below.

Article 7. Imputation index.

The imputation index referred to in Articles 4 and 6 here above, set basically in accordance with the income of the Historical Territories relative to that of the State, is 6.24 per cent for the current five year period.

Article 8. Net Quota.

The amount resulting from the adjustments provided by Article 5 and the compensations stipulated in Article 6. One here above shall constitute the net Quota for the Basque Country for the year 2017, which is the base year of the five-year period.

After the net Quota is determined, the amount resulting from the application of the Fourth Transitional Provision of the Economic Agreement shall be subtracted from said net Quota.

CHAPTER III

DETERMINATION OF THE NET QUOTA FOR THE SUBSEQUENT YEARS OF THE FIVE-YEAR PERIOD, AND FINAL SETTLEMENT OF THE QUOTAS

Article 9. Method of determination.

The net Quota for the subsequent years after the base year of the five-year period shall be determined provisionally by applying an updating index to the net Quota.

Article 10. Updating index.

The updating index is the quotient between expected revenues from agreed taxes, excluding those transferred in their entirety to the Autonomous Communities, as entered in Chapters I and II of the State Budget for the tax year to which the net Quota refers, and the revenues, on equivalent budgetary terms, expected by the State for the same tax items in the base year of the five-year period.

Article 11. Effects of variations in assumed competences.

One. If during any of the years following the base year of the five-year period, the Autonomous Community of the Basque Country assumes further competences whose annual cost, raised at State level, had been included in the charges of the State used as the basis for determining the net Quota for the base year of the five-year period as provided in Article 8, said annual cost at State level associated with the transfer in the year in which the transfer takes place shall be calculated, as inferred from the General State Budget for the year in question.

Should the new transfer not take effect on January 1 of the year in question, the total annual cost at State level associated with the transfer for the year in question shall be reduced proportionally to the portion of the year during which the Basque Country has assumed said competences, with effect exclusively for the determination of the net Quota for the year in which the transfer takes place.

The aforesaid proportional reduction shall take into account the actual periodicity of current expenditure, as well as the real extent to which the State's investments have been undertaken.

Two. If the circumstance indicated in the preceding Section arises, the net Quota for the base year of the five-year period shall be reduced by the amount resulting from the application of the imputation index, provided for in Article 7 above, to the total annual cost at State level in the year of the transfer divided by the updating index, provided for in Article 10 above.

The net Quota for the base year of the five-year period thus revised shall be used to determine the Quota for the year in which the transfer takes place and for the subsequent years.

Three. The mechanism described above shall be applied inversely if the Autonomous Community of the Basque Country ceases to exercise competences which it had previously assumed.

Four. If during any of the years of the five- year period, the State should reserve for itself or assume new funding commitments, as a result of legislative measures, of general interest or interinstitutional agreements, in matters whose implementation corresponds to the Autonomous Communities, the Joint Committee on the Economic Agreement shall meet to analyze and determine the financial contribution, as the case may be, which corresponds to the Basque Country.

Article 12. Final settlement.

One. The provisionally set Quotas, as provided for in the articles here above, shall be settled definitively by applying the actual value of the updating index described in Article 10 above, and inferred from the net revenue actually obtained by the State in the base year of the five-year period, compared with the expected equivalent revenue for the same year entered in the State Income Budget.

Two. Exceptionally, the final settlement of the net Quota for the base year of the five- year period shall be made taking into account the actual value of the updating index described in Article 10 above, which is inferred from the net revenue actually obtained by the State in the base year of the five-year period, with respect to the expected equivalent revenue entered in the State Income Budget for that year.

Three. The net revenue obtained by the State in each year shall be that stated in the certificate issued by the General Audit Inspectorate of the State Administration to this effect, taking into account the revenue obtained in the year to which the certificate refers, whatever the year of accrual.

Four. Final settlement shall be made in May of the year following the year to which the net Quota and the compensation to be settled refer, and any differences with the net Quota set provisionally for the said year shall be regularized in said month, being calculated, as the case may be, with the payment to be made in that month as provided for in the following article.

CHAPTER IV

COMMON RULES

Article 13. Payment of the Quota.

The amount payable by the Autonomous Community of the Basque Country in each year shall be paid to the State Treasury in three equal instalments in the months of May, September and December of the year in question.

Article 14. Adjustment for Value Added Tax.

One. The following shall be added to the actual Value Added Tax collection of the Basque Country:

- a) 6.875 per 100 of the Value Added Tax revenues at Customs.
- b) 1.110 per 100 of the actual tax revenues of the common territory divided

by 94.235 per 100, or of the actual tax revenues of the Basque Country divided by 5.765 per 100, according to whether the percentage of tax revenues of the Basque Country, with respect to the State total, minus the revenue obtained at Customs, is more or less, respectively, than 5.765 per 100.

Two. The provisional imputation of the aforesaid adjustment and the definitive regularization thereof in the immediately subsequent year shall be carried out in accordance with the procedure in force at the time and approved by the Joint Committee on the Economic Agreement.

Article 15. Adjustment for Excise Duties.

One. The following shall be added to the Basque Country actual collection of Excise Duties on Alcohol and Alcoholic Beverages, Intermediate Products, Beer, Mineral Oils and Manufactured Tobacco:

1. 7.130 per 100 of the revenues from Duties on Alcohol and Alcoholic Beverages, and on Intermediate Products at Customs.

2. 5.198 per 100 of the actual revenue of the common territory from the Duty on Alcohol and Alcoholic Beverages and on Intermediate Products divided by 98.068 per 100, or the actual revenue of the Basque Country from the same excise duties divided by 1.932 per 100, according to whether the percentage of revenue of the Basque Country with respect to the State total, minus the revenue collected at Customs, is more or less, respectively, than 1.932 per 100.

1. 7.130 per 100 of the revenue from Excise Duty on Beer collected at Customs.

2. 5.399 per 100 of the actual revenue from the Excise Duty on Beer of the common territory divided by 98.269 per 100, or the actual revenue of the Basque Country from the same excise duty divided by 1.731 per 100, according to whether the percentage of revenue of the Basque Country with respect to the State total, minus the revenue collected at Customs, is more or less, respectively, than 1.731 per 100.

1. 6.560 per 100 of the revenues from the Excise Duty on Mineral Oils collected at Customs.

2. With a negative sign, 1.700 per 100 of the actual revenue from the Excise Duty on Mineral Oils of the common territory, except for revenues from the application of tax rates of the Autonomous Communities, divided by 91.740 per 100, or the actual revenue of the Basque Country from the same Excise Duty divided by 8.260 per 100, according to whether the percentage of revenue of the Basque Country with respect to the State total, minus the revenue obtained at Customs, is more or less, respectively, than 8.260 per 100.

3. The difference between the annual actual revenue collected in the common territory from the application of the autonomic tax rates set by the competent institution of the Basque Country, and the annual actual revenue collected in the Basque Country from the application of the autonomic tax rates set by any other Autonomous Community.

The difference between the result of applying to the common territory's actual revenue from the Excise Duty on Manufactured Tobacco the percentage corresponding annually to the value of the products supplied to the tobacco and stamp retailers located in the Basque Country, with respect to the value of the

products supplied to said establishments in the territory where said excise duty is applied, and the result of applying a complementary up to a hundred of the percentage defined here above to the actual revenue from the same excise duty in the Basque Country.

Two. Should the actual revenue obtained by the Basque Country, minus the amount from the autonomic tax rates, differ, in the case of the Excise Duty on Mineral Oils by more than 7 per 100, or in the case of the Excise Duty on Alcohol and Alcoholic Beverages, Intermediate Products and Beer by more than 10 per 100, from the amount resulting from the application of the rates indicated in the last part of sub-sections a) 2, b) 2, and c) 2 of Section One of this article to the actual revenue of the State as a whole for each of the said items, those rates shall be corrected in order to make the adjustments for the year in which such differences arise.

This correction shall be made by applying the percentage of variation, be it positive or negative, exceeding the limits set in the preceding paragraph, to the corresponding rates referred to in the last part of sub-sections a) 2, b) 2, and c) 2 of Section One above.

Three. The provisional imputation of the aforesaid adjustment for each of the Excise Duties, and the definitive regularization thereof, in the immediately subsequent year, shall be carried out in accordance with the procedure in force at the time and approved by the Joint Committee on the Economic Agreement.

First Additional Provision.

The First Additional Provision laid down in Law 37/1997, August 4, shall remain in force for the five year period 2017-2021.

Second Additional Provision.

The provisional net Quota for the Basque Country for the base year of the five-year period from 2017 to 2021, as stated in Appendix 1 to the present methodology, is approved.

Third Additional Provision.

Financing corresponding to the Basque Country in accordance with its participation in the costs of programs and public activities within the scope of work, employments and professional training, as provided by the Royal Decree 1441/2010, November 5, will be deducted from the payable net Quota in each year through compensation.

Fourth Additional Provision.

In the event of a reform of the State tax legal system affecting the agreement on taxes, or of an alteration in the distribution of the regulatory competences affecting the scope of indirect taxation, or of the creation of new tax figures or payments on account, both Administrations shall by mutual agreement proceed to adjust the net Quota for the base year of the five-year period and the updating index, in such a way and to such an amount as may be pertinent, with effects as from the year in which the reform is made.

Both Administrations shall agree, as the case may be, on making the pertinent adjustments or compensations in accordance with the nature of the tax figure subject to agreement.

Fifth Additional Provision.

In the event of a reform of the State tax cession system or a substantial modification to the General State Budget as a result of the amendment to the finance system of the Autonomous Communities or of the Municipalities, the Joint Committee on the Economic Agreement shall meet to analyze and determine whether the revision of the net Quota for the base year of the five year- period and/or revision of the updating index to the net Quota is required. If applicable, adaptations shall take effect as from the year in which the reform is approved.

Sixth Additional Provision.

In the event of a reform of the current regime of producing and commercializing tobacco products, both Administrations shall proceed, by mutual agreement, to the revision of Article 15.One, d) above.

Seventh Additional Provision.

Exceptionally, it is deemed definitive the methodology applied to determine the final Quotas corresponding to the five-year period 2012-2016, provided for Law 29/2007, October 25, approving the methodology to determine the Quota of the Basque Country for the five-year period 2007-2011, under the terms agreed on by the Joint Committee of the Economic Agreement.

Eighth Additional Provision.

Exclusively for the years 2017-2021, the result of the assessment of the five-year period 2007-2011, of the five-year period 2012-2016, and of the other agreements reached by the Joint Committee of the Economic Agreement on May 17, 2017 shall be applicable in the payable net Quota of said years through compensation.

First Final Provision.

Exceptionally, should the period of validity of this Law elapse without a new Quota Law being enacted to regulate the methodology for determining the Quota for the following years, the methodology laid down in this Law shall apply in all its terms for the provisional determination of the net Quotas, and for the compensations referred to in the First Additional Provision of this methodology, and in the Fourth Transitional Provision of the Economic Agreement for the year 2022 and subsequent years.

The Quotas and compensations thus determined shall be replaced by those applicable under the new Quota law indicated in the previous paragraph once it is enacted.

Second Final Provision.

The provisions of this methodology are understood to be without prejudice to the regulations contained in the Additional, Transitional and Final Provisions of

APPENDIX I**Quota for the Autonomous Community of the Basque Country for 2017**
(General State Budget for 2017)

	Miles de euros
State Budget Expenditure	276.152.254,24
ASSUMED CHARGES BY THE BCAC (*)	89.966.505,13
TOTAL NON-ASSUMED CHARGES	186.185.749,11
IMPUTATION INDEX (6.24%)	11.617.990,74
COMPENSATIONS AND ADJUSTMENTS	-10.313.455,24
– For non-agreed taxes	-539.702,10
– For non-tax income	-595.209,88
– For Budget deficit	-8.781.465,54
– For agreed direct taxes	-397.077,72
NET QUOTA	1.304.535,50
NET AMOUNT PAYABLE QUOTA	-4.426,53
LÍQUIDO A PAGAR	1.300.108,97

(*) This amount does not include as assumed charge the provisional estimation of the costs of programs and public activities within the scope of work, employments and professional training, transferred to the Basque Country by the Royal Decree 1441/2010, November 5 (Section G.2)