EUROPEAN COMMISSION

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Subject: **State Aid SA.101888 (2022/EV) – Spain**
Evaluation Plan - Canary Islands Economic Tax Scheme for investment aid

Excellency,

1. PROCEDURE

(1) By electronic notification of 18 July 2022, Spain notified to the Commission an evaluation plan for the Canary Islands Economic Tax Scheme ("CIETS") ([1]), based on the aid scheme SA.101888 (2022/X) and exempted by Commission Regulation (EU) No 651/2014 of 17 June 2014 ("GBER"), since its average annual budget exceeded EUR 150 million and therefore is subject to evaluation according to Article 1(2)(a) of the GBER.

(2) On 6 October 2022, the Commission services forwarded a report by the Joint Research Centre and asked for supplementary information to the Spanish authorities, in order to improve and streamline the evaluation plan. On 20 December 2022, the Spanish authorities submitted the requested information by means of a revised version of the evaluation plan.

([1]) Original title in Spanish: Régimen Económico Fiscal de Canarias ("REF").

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(3) By letter registered on 24 May 2023, the Spanish authorities agreed exceptionally to waive the rights deriving from Article 342 of the Treaty on the Functioning of the European Union (TFEU) in conjunction with Article 3 of the Council Regulation 1/58 ([2]) and to have this decision adopted and notified only in English.

2. DETAILED DESCRIPTION OF THE KEY ELEMENTS OF THE NOTIFIED EVALUATION PLAN

(4) As required by Article 2 (16) of the GBER and in line with best practices established in the Commission Staff Working Document on Common methodology for State aid evaluation ([3]) (hereinafter: "Staff Working Document"), the notified plan contains the description of the following main elements: (i) the objectives of the aid scheme to be evaluated, (ii) the evaluation questions, (iii) the result indicators, (iv) the envisaged methodology to conduct the evaluation, (v) the data collection requirements, (vi) the proposed timing of the evaluation including the date for submission of the final evaluation report, (vii) the approach for the selection of the independent body conducting the evaluation, and (viii) the modalities for ensuring the publicity of the evaluation.

(5) The evaluation plan and the future evaluation report will help to ensure that similar schemes will be more effective in the future and will create less distortion in markets (if any). The evaluation will also improve the efficiency of similar schemes and, possibly, of future rules for granting State aid in this area.

2.1. Objectives of the aid scheme to be evaluated

(6) The CIETS is an important regional investment aid scheme in Spain ([4]). The scheme provides investment support in the Canary Islands, which are eligible for regional aid under Article 107(3)(a) TFEU according to the regional aid map for Spain for the period 1 January 2022 – 31 December 2027 ([5]). In accordance with

([2]) Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).

([3]) Commission Staff Working Document on Common methodology for State aid evaluation, Brussels, 28.5.2014, SWD(2014) 179 final.

([4]) The CIETS was previously approved under the Regional Aid Guidelines by the Commission since 1994 until the end of 2014, after which the aid scheme has been implemented under Article 14 of the GBER. Its legal bases are Article 94 of Law 20/1991, of 7 June, amending the tax aspects of the Canary Islands Economic Tax Regime, and Articles 25 and 27 of Law 19/1994, of 6 July, amending the Economic and Tax Regime of the Canary Islands, both laws amended subsequently in several occasions. The origin of this aid scheme dates back to 1972, with the enactment of Law 30/1972 of 22 July on the Economic Tax Regime of the Canary Islands, subsequently modified on numerous occasions, such as by the mentioned Law 20/1991 of 7 June and Law 19/1994 of 6 July.

([5]) Commission Decisions C(2022) 1524 final, of 17 March 2022 in case SA.100859 (2021/N) – Spain Regional aid map for Spain (1 January 2022 – 31 December 2027), and C(2023) 1484 final, of 9 March 2023 in case SA.106039 (2023/N) – Spain Amendment to the Regional aid map for Spain (1 January 2022 – 31 December 2027) - increased aid intensities for territories identified for support from the JTF.

Article 349 TFEU, the structural social and economic situation of the Canary Islands as an outermost region is compounded by their remoteness, insularity, small size, difficult topography and climate, economic dependence on a few products, the permanence and combination of which severely restrain their development. The Spanish authorities note that those difficulties result in lower competitiveness, thereby reducing the range of investment possibilities.

(7) The aid under the CIETS takes the form of tax advantages ([6]). More specifically, the aid scheme is structured in the following three sub-measures (together, "the three sub-measures"):

(a) 'Incentives for investment', which take the following two forms:

i. Exemptions from the tax on transfers of assets and documented legal acts ("TADLA") ([7]).

ii. Exemptions from the Canary Islands General Indirect Tax ("CIGIT") ([8]).

(b) 'Reserves for investments in the Canary Islands' ("RIC") ([9]), in the form of a reduction in the tax base of the non-distributed profits allocated to the undertaking's reserves (for the corporate tax) or of the net operating income allocated to the investment reserve (for the personal income tax).

(c) 'Deductions for investments in the Canary Islands' ("DIC") ([10]), in the form of a reduction of the corporate tax or the personal income tax.

(8) The objective of the CIETS is to establish a system that encourages economic activity and economic growth in the Canary Islands through the creation of jobs, the enhancement of its various island areas, the attraction and the increasing of private investment. More specifically, the objectives per sub-measure are:

(a) The objective of the exemptions from the TADLA and CIGIT, described in recital (7)(a), is the encouraging of investment in intangible assets and capital goods, as well as the creation and expansion of enterprises.

(b) The objective of the RIC, described in recital (7)(b), is to stimulate productive business investment by means of own resources, and ultimately the promotion of job creation, the alignment of public investments in the

([6]) The Spanish authorities clarified that the tax advantages will only materialise as from July 2023.

([7]) "Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados" (in Spanish). See Article 25(1) of the Law 19/1994, of 6 July.

([8]) "Impuesto General Indirecto Canario" (In Spanish). See Article 25(2) of the Law 19/1994, of 6 July.

([9]) "Reserva para inversiones en Canarias" (in Spanish). See Article 27 of the Law 19/1994, of 6 July.

([10]) "Deducción por inversiones en Canarias" (in Spanish). See Article 94 of the Law 20/1991, of 7 June.

Canary Islands with the national average, the modernisation of the productive structure through the continuous flow of investment and, consequently, the improvement of its competitiveness.

(c) The objective of the DIC, described in recital (7)(c), is the attraction of medium and long-term investment into the Canary Islands.

(9) Beneficiaries under the scheme, in relation to all three sub-measures, can be enterprises of all sizes and active in all sectors in the Canary Islands. The total estimated number of beneficiaries, for all three sub-measures, is more than 2 000.

(10) The average annual budget of the scheme is estimated at EUR 293 million and the total budget is EUR 586 million.

(11) The duration of the scheme is at present limited to 31 December 2023.

(12) Spain submits that the evaluation plan will cover the whole duration of the scheme, which it envisages to end on 31 December 2026. It is the responsibility of Spain to ensure that the scheme continues to comply with the provisions of the GBER applicable to the scheme after 31 December 2023. To that effect, Spain commits to amend the scheme and publish a new information sheet, if necessary. Similarly, in that case, Spain shall amend the evaluation plan accordingly and re-submit it to the Commission.

(13) The maximum aid intensity available to aid beneficiaries takes into account the level of economic development of the Canary Islands. In line with the regional aid map for Spain for the period 2022-2027, the maximum aid intensity in this outermost region is 50% for large enterprises, 60% for medium-sized enterprises and 70% for small enterprises.

(14) As regards possible negative effects that could be associated with the scheme, the Spanish authorities explain that, since the aid under the CIETS ultimately entails the reduction of the effective taxation on corporate profits, during times of economic slowdown and crisis, its impact is very limited and would not play a (desirable) countercyclical role. For that reason, too, the three sub-measures are biased towards the most profitable and competitive companies, which benefit most from the incentives, and that may indirectly lead to some tax degression. The Spanish authorities also indicate that it may lead to price increases for investment goods whose supply is limited.

2.2. Evaluation questions and result indicators

(15) The evaluation questions address both the direct impact of the aid on the beneficiaries and the indirect impact of the scheme (positive and negative externalities), as well as the proportionality and appropriateness of the scheme. The result indicators are linked to the evaluation questions and to the objectives of the scheme.

(16) The direct impact of the aid on the beneficiaries will be addressed by evaluation questions on the effect of the aid for the performance of the beneficiaries and on the incentive effect. For example, evaluation questions will assess whether the aid

has led to the creation of jobs in the beneficiaries and whether the aid has led the beneficiaries to increase their investments (and in particular investments in technology, research and development).

(17) To address the questions on the direct impact of the aid on the beneficiaries, the Spanish authorities will use various indicators such as, the number of jobs created both at the level of beneficiaries and at the level of all enterprises in the Canary Islands, the number of companies with technological innovation activities, the R&D expenditure in high-tech sectors, and the intensity of technological innovation ([11]).

(18) The indirect impacts of the aid scheme will be captured by studying (1) whether the investment aid under the CIETS has changed the productive structure or diversify the business fabric in the Canary Islands, (2) whether the investment aid under the CIETS has changed the sectorial structure of employment in the Canary Islands, and (3) whether it has led to an improvement in attracting entrepreneurship to the Canary Islands.

(19) In addition to a suit of contextual indicators, the key indicator to assess the possible changes to the productive structure or business fabric will be the number of undertakings under different CNEA ([12]) categorisation.

(20) Spain will also investigate the proportionality and appropriateness of the aid.

2.3. Envisaged methodology to conduct the evaluation

(21) The evaluation will be conducted separately for each of the three sub-measures and using a combination of different methods. The Spanish authorities note that, in order to conduct the analysis, they will not use aggregated data but microdata at company level obtained from databases. For each of company, the supplier of relevant information (for instance, the Tax Agency) informs whether that company benefited from a certain tax advantage under the CIETS, thus enabling an analysis of the effects of each of the three sub-measures separately at micro level. Moreover, the Spanish authorities note that the data supplying agencies will provide information both on the companies benefiting from the tax advantages and on the companies that have not been beneficiaries (control group), based on specific variables such as employment, investment, sector of activity, type of company or size. Under this approach, the Spanish authorities will form control groups with similar characteristics to the treatment group. This analysis allows to isolate the effects of each sub-measures of the CIETS.

(22) Counterfactual impact evaluation will be used to measure the impacts of the aid on the beneficiaries' economic indicators, for all three sub-measures. More specifically:

(a) Regarding the incentives for investment, described in recital 7(a), for both the exemption from the TADLA and the exemption from the CIGIT, a

([11]) Expenditure on innovative activities/turnover x100.

([12]) Classification of National Economic Activities.

counterfactual impact evaluation will be used to determine the effectiveness of this tax advantage, assessing the extent to which the improvement in a company's output variables, such as tangible and intangible assets, is due to the application of this exemption, compared to the situation in which the companies did not use this tax advantage. Considering the different factors influencing the use of this tax advantage by a company, the Spanish authorities propose to use the *Difference-in-differences* ("DiD") method alongside with *propensity score matching* ("PSM"). The aim is to analyse how the use of the exemption affects (or not) the proposed output variables.

(b) Regarding the RIC, described in recital 7(b), a counterfactual impact evaluation will be used to determine the effectiveness of this tax advantage, assessing the extent to which the improvement in a company's output variables, as a percentage of own resources, is due to the application of this investment reserve, compared to the situation where those companies would not have used the RIC. Considering the possibility of using this tax benefit strategically and sequentially over different periods by companies, the Spanish authorities propose to use the *Marginal Structural Models* ("MSM") method to estimate the effect of the use of the investment reserve on the level of companies' own resources and, where possible, on other elements where the RIC could materialise, such as employment, assets or shares or other financial instruments. The Spanish authorities note that it is possible that companies may be beneficiaries of the scheme (i.e. apply the RIC) more than once, which has implications for correctly estimating the impact of the application of the RIC on the output variable. Thus, the MSM method can be used to estimate the impact of a programme that varies over time and is able to consider biases due to confounding factors and correct biases due to loss of individuals over time. The MSM estimate the effect of treatment on the output variable by weighting the available observations by the inverse probability treatment weight (so-called "IPTW").

(c) Regarding the DIC, described in recital 7(c), a counterfactual impact evaluation will be used to determine the effectiveness of this tax advantage, assessing the extent to which the improvement in a company's output variables, such as employment or turnover, is due to the application of the investment deduction, compared to the situation where the companies did not use this tax benefit. Considering the varying intensity of the use of this deduction, which is much higher in the Canary Islands than in the rest of the tax territory, the Spanish authorities propose to use the instrumental variable method ("IV"), on the basis of which the instrumental variable will be whether the company is located (or not) in the Canary Islands and the participation variable whether the company has applied the DIC. The aim is to analyse how the use of the deduction affects (or not) the proposed output variables.

(23) A control group will be built by identifying the companies that have not received investment aid under the CIETS. In order to correctly apply the DiD methodology, the two samples (beneficiary and non-beneficiary enterprises) must be as similar as possible in terms of observable characteristics (i.e. variables that can be found in the database). For this purpose, companies will be paired according to the value of their PSM. With the PSM approach, the values of the observable variables are used to create a synthetic score for beneficiary and non-beneficiary enterprises. The control group is built by identifying the non-beneficiary enterprises that are most similar with the beneficiary enterprises based on the PSM scores or, in other words, in accordance with their likelihood of being beneficiaries of the CIETS.

(24) To address the appropriateness and proportionality of the aid, the Spanish authorities will use the Rapid Impact Evaluation ("RIE") approach. RIE is a qualitative methodology that provides a structured way of collecting an impact assessment of a programme, where stakeholders and experts assess, on the basis of a questionnaire, the scheme's performance against a counterfactual situation, which consists of an alternative scheme design or status. In particular, stakeholders and experts will be asked to assess two elements: the probability that the intervention will have the desired result and the magnitude of the effect on the output variable. Three different groups of individuals will be consulted: (i) the scheme's stakeholders, which affect or are affected by the scheme: the scheme's beneficiaries, key decision makers, the scheme's administrators, the staff and implementing partners involved in the scheme; (ii) external experts in the field: researchers, academics, industry leaders and others with expertise in a relevant field; (iii) technical advisors: emeritus (or retired) professors from a university or a highly experienced person in the field of study. Stakeholders and expert's evaluations are analysed, weighed and combined to generate an estimate of the overall impact of the programme.

(25) The Spanish authorities will ensure that the envisaged methods address any potential selection bias that could undermine the validity of the results.

2.4. Data collection requirements

(26) The evaluation will be based on data from the State Tax Agency (e.g. data from the corporate tax model and the declarations of aid received under the CIETS) and the Canary Islands Tax Agency (e.g. information on taxable persons who have applied exemptions under the CIETS, of the books of invoices issued and received from the immediate SII Information System), the Canary Islands Institute of Statistics (e.g. microdata on the structural statistics of enterprises in industry, trade and market services, and information on purchases, sales and investment), data from surveys (e.g. the Survey on Business Innovation (EIT) with information available for the period 2006-2020, and the Industrial Business Survey).

(27) The data collection frequency will be annual and observations at micro-data level will be available whenever the administrative record or survey concerned allows to collect it.

2.5. Proposed timing of the evaluation, including the date of submission of the final evaluation report

(28) According to the Spanish authorities, the foreseen timing for the evaluation is composed of the following phases:

Task	Deadline
Final evaluation report	November 2023 (to be taken into account in the negotiation of the extension for the period 2024-2027). The focus of this report will be on result indicators and progress with the implementation of the scheme. The report will also test on existing data the usability of the proposed methodologies.
Additional evaluation report	December 2024 (expected). End of the period 2015-2023 when the data relating to the 2023 financial year are processed and analysed.

2.6. Independent body selection to conduct the evaluation

(29) The Spanish authorities indicate that the body responsible for conducting the evaluations will be the Institute for Fiscal Studies, in cooperation with the Canary Islands Institute of Statistics, the National Agency for Tax Administration, the Directorate-General for Taxation, the National Institute of Statistics and the Autonomous Community of the Canary Islands (under the coordination in the latter case by the Regional Ministry of Finance, Budget and European Affairs of the Government of the Canary Islands).

(30) The Spanish authorities note that the Institute for Fiscal Studies is an autonomous body which, although integrated in the Ministry of Finance and the Civil Service, has its own directorate-general, as well as assets and budgetary arrangements and thus enjoys functional independence. Its main purpose is advice in decision-making processes and the assessment of public finance scenarios for the adoption of fiscal policies. Its institutional mission, in general, focuses on two main areas: research and training.

2.7. Modalities for ensuring the publicity of the evaluation

(31) The Spanish authorities confirm that the evaluation plan and the final evaluation report will be available through the website of the Institute for Fiscal Studies.

3. Assessment of the evaluation plan

(32) The correct application of the GBER is responsibility of the Member State. The present decision on the evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all

applicable provisions of the GBER. It does therefore neither create legitimate expectations, nor does it prejudge the position the Commission might take regarding the conformity of the aid scheme with the GBER when monitoring it, or assessing complaints against individual aid granted under it.

(33) Pursuant to Article 1(2)(a) GBER, certain aid schemes, the average annual State aid budget of which exceeds EUR 150 million, should be made subject to evaluation. The Commission notes that the annual average budget of the aid scheme concerned by this decision currently exceeds EUR 150 million (see recital (10)).

(34) As the Commission explained in recital 8 of the GBER, the evaluation of large schemes is required "in view of the greater potential impact of large schemes on trade and competition". The required evaluation should "aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in the light of its general and specific objectives and should provide indications on the impact of the scheme on competition and trade". State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade and could examine the proportionality and appropriateness of the chosen aid instrument.

(35) In the light of these considerations, Article 2(16) of the GBER defines "evaluation plan" as "a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation".

(36) The Commission considers that the notified evaluation plan, as described in section 2 of this decision, contains these minimum elements.

(37) The evaluation plan gives a concise description of the key objectives of the scheme concerned and provides sufficient information to understand the underlying 'intervention logic' (see section 2.1). The scope of the evaluation is defined in an appropriate way. It also identifies and justifies pertinent result indicators that integrate the evaluation questions (see section 2.2) and explains the data collection requirements and availabilities necessary in this context (see section 2.4).

(38) The evaluation plan sets out and explains the main methods that will be used in order to identify the impacts of the scheme and discusses why these methods are likely to be appropriate for the scheme in question. The proposed evaluation methodology sufficiently allows identifying the effectiveness of the scheme itself (see section 2.3).

(39) The proposed timeline of the evaluation is reasonable in view of the characteristics of the scheme concerned and the relevant implementation periods for projects supported under the scheme (see section 0).

(40) The procedure and selection criteria for the selection of the evaluation body are appropriate to meet the independence and skills criteria (see section 2.6).

(41) The proposed modalities for the publication of the evaluation results are appropriate and ensure transparency (see section 2.7).

(42) In view of the above, the Commission considers that the evaluation plan meets all requirements laid down in the GBER, is established in line with the common methodology proposed in the Staff Working Document and is suitable given the specificities of the large aid scheme to be evaluated.

(43) The Commission notes the commitment made by the Spanish authorities to conduct the evaluation according to the plan described in the present decision. The Commission reminds the Spanish authorities that they should inform the Commission of any element that might seriously compromise the implementation of the plan. The Commission also notes the commitment by the Spanish authorities to fulfil the obligation to submit the final evaluation report by November 2023 and an additional, ex-post, evaluation report by December 2024 (see recital (28)). The Commission reminds that the application of the scheme has to be suspended if the final report is not submitted in good time and/or in adequate quality.

(44) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the exemption for the aid scheme for which the evaluation plan was submitted is applicable as of the date of notification of this decision to Spain.

(45) Alterations to this scheme, other than modifications which cannot affect the compatibility of the scheme under the GBER or cannot significantly affect the content of the approved evaluation plan, are pursuant to Article 1(2)(b) of the GBER excluded from the scope of the GBER.

4. CONCLUSION

The Commission has accordingly decided:

- that the exemption of the aid scheme for which the evaluation plan was submitted, shall continue to apply from the date of notification of this decision until 31 December 2023.

- to publish this decision on the Internet site of the Commission.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

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Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President