

# The Economic Agreement

## In a few words

Text source: Ad Concordiam

### Origin of the Economic Agreement

After the abrogation of the foral historical rights or Fueros, once the Second Carlist War finished at the end of the 19th century, the Economic Agreement was enacted as the system for the contribution of the Basque provinces to the finances of the Kingdom of Spain; system which acknowledges the Foral Deputations the capacity to collect their own taxes in order to defray not only their own expenses but those which are common in the Spanish state as well.

The first Economic Agreement was signed in 1878 and since then it has been resigned in several occasions, being in force up to nowadays with the only exception of Franco's dictatorship era, during which it was suspended in Gipuzkoa and Bizkaia until 1981 when it was reestablished. Its last renovation took place in 2017.

### What is the Economic Agreement nowadays?

The Economic Agreement is the financing system of the Basque Country, by virtue of which the financial and tax relations between the Basque Country and the Spanish state are set up.

The 1978 Spanish Constitution, nowadays in force, safeguards the Economic Agreement as part of the core of the foralhistorical rights of Araba, Bizkaia and Gipuzkoa and lays down its general updating within the framework of the Constitution and of the Statute of Autonomy of the Basque Autonomous Community.

### What does it aim to?

Within the acknowledged competences of the Economic Agreement, the Basque Country collects the taxes paid by Basque citizens in order to fund the public services they receive.

The General Assemblies (Juntas Generales), of the Historical Territories (Araba, Bizkaia and Gipuzkoa) pass by the regulation and quantification of taxes that citizens must pay and the Foral Deputations (Diputaciones Forales) are in charge of their collection and administration.

The closeness to citizens of the abovementioned Institutions guarantees the proper adaptation of taxes and public services to the real needs of the population in the Basque Country.

### What is the Quota or Cupo?

The Quota is the financial transfer the Basque Country must pay to the Spanish Treasury in order to fund the competences the Spanish state carries out to the benefit of the residents of the Basque Country. This is due to the fact these competences are kept by the State and are not assumed by the Basque Country, i.e. the Army, Foreign Affairs, the Royal Household and so on.

The Basque Country pays for these competences in accordance with its wealth (6.24 per cent of the total Spanish state income) regardless the amount of their income or its financial situation.

### Is applicable to the rest of the Autonomous Communities?

Within the legal framework of the Spanish State, the Basque Economic Agreement is one of the financing systems in force together with the Covenant Regime of the Foral Community of Navarre of similar features to the Agreement, and with the common regime system based on the LOFCA (Organic Law for the Finance of the Autonomous Communities), which is in force in the rest of the Communities.

## Which is the difference between the Agreement system and the Common Territory regime?

The differences between the Agreement regime and the Common regime are mainly about its origin, its features and its contents. The Agreement regime dates back to the end of the 19th century when it was established as the system to incorporate the Basque territories in the territorial and economic organization of the Spanish State, whereas the Common regime financing system was implemented by the 1978 Spanish Constitution. In relation to its contents, the Agreement regime is a public regional financing system based on the capacity criterion. On the contrary, the common one is based on the necessity criterion. The Basque Country contributes to common expenses in accordance with its relative wealth. On the other hand, the Autonomous Communities get funds from the State in order to pay the competences that have been transferred to them.

## Which are the main features of the Economic Agreement?

The Agreement regime has some particular features which make it unique:

- a. It is an agreed regime. Decisions are basically adopted in Committees of equal composition, between representatives of the Basque Country and of the State, and the negotiation results are implemented via laws, whose previously agreed content cannot be amended by the Spanish Parliament.
- b. It is a historical regime. The Agreement was set up for the first time in 1878 as the system to incorporate the Basque territories in the State economic system.
- c. It is constitutional. The First Additional Provision of the Spanish Constitution of 1978 states that the Constitution guarantees and respects the historical rights of the foral territories, being the Agreement the most genuine expression of these historical rights.
- d. It is based upon the solidarity principle. The Agreement guarantees the Basque Country's contribution to common expenses proportionally to its wealth. Besides, it contributes to finance the Inter-territorial Compensating Fund, which is the instrument laid down in the Spanish Constitution for the purposes of reducing the differences among the Autonomous Communities.
- e. It is based upon the accountability and unilateral risk principles. The Basque Country must contribute to common expenses regardless of its financial situation since the contribution amounts (Quota) are only calculated according to variables which depend exclusively on the decisions of the State administration.

## Can the Basque Country establish a different corporate taxation system from the one in force in the rest of the Spanish State?

Yes. The Corporate Income Tax is an agreed tax subject to autonomous legislation for companies which have their fiscal domicile in the Basque Autonomous Community, which implies that the main elements of this tax figure are decided by the Historical Territories Institutions of Araba, Bizkaia and Gipuzkoa. In addition, the European Court of Justice has settled that a region, like the Basque Country is, can have a different Corporate Tax if it enjoys enough autonomy in regard to three different aspects: institutional autonomy (enjoy a different political status from the central government), procedural autonomy (the State can not interfere in the adopted decision) and economic autonomy (the region must bear the economic consequences of its decision).