

## **Note on tax incentives put in place by the European authorities for very low population areas**

**21/10/2020**

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### **Summary**

The **current scheme for Teruel has been extended until 31/12/2021, allows for investment and operating aid** with limitations for large companies, then “could” consider the proposed reductions in contributions and taxes made (requires an analysis by DG Taxation and Social Security).

In **the new proposal of the European Commission**, the scheme for Teruel (Soria and Cuenca) would be more unfavourable and **could only grant aid to compensate for transport costs**.

Prospects for the future:

- The European Commission takes an individual decision and equates them to very low population density areas (which do not comply) with more or less restrictions, which is the current situation.
- To accept the report's proposal without differentiating between low density areas and very low density areas.

The report submitted seeks to demonstrate that areas with a density of more than 8 inhabitants per Km<sup>2</sup> and less than 12 may have the same demographic risks. It also gives an example of the Norwegian experience of reducing wage contributions in these areas to tackle the demographic challenge.

### **Current situation:**

**Teruel**, in accordance with the regional aid map for Spain for the period 2017-2020, is **considered**, together with Soria, to be a **very sparsely populated area**.

This implies that investment aid and operating aid may be granted to undertakings (but under certain conditions), but the granting of investment aid to large enterprises is very limited.

This State aid is compatible with the internal market (according to Article 107.3 of the Treaty on the Functioning of the EU).

This aid scheme has been extended until 31 December 2021.

#### **Comment:**

As noted above, under the current regional aid map for Spain 2017-2020, **Soria and Teruel are considered to be** very sparsely populated **areas**. **It** was thus included in the map, although it did not fulfil strict requirements to be so because its population density was not less than 8 inhabitants per Km<sup>2</sup>.

However, they consider that the scheme applicable to them is that of 'sparsely populated areas', more restrictive (they could not grant operating aid) and that they only benefit from the scheme of very sparsely populated areas Sweden and Finland.

### **New Commission proposal:**

The European Commission is preparing the draft Guidelines for the period 2022-2027.

This draft distinguishes between:

- **Sparsely populated areas:** NUT3 (provinces) with a population density of less than 12,5 inhabitants per km<sup>2</sup>.
- **very sparsely populated areas:** NUT2 (regions) with a population density of less than 8 inhabitants per km<sup>2</sup>.

According to this draft, **in the period 2022-2027 no Spanish region (NUT2) could be considered as a very sparsely populated area;** And **the provinces of Soria, Teruel and Cuenca (NUT3) could be considered as sparsely populated areas,** but not as very sparsely populated areas.

This would restrict the **possibility of granting operating aid in sparsely populated areas exclusively to compensating for additional freight transport costs** ( whereas in very sparsely populated areas there is no such limitation).

In order to remedy this situation, it is possible for the Commission, by means of an individual decision, to designate Soria, Teruel and Cuenca **as very sparsely populated areas** in the Spanish regional aid map **so that they may be eligible for operating aid** beyond strict compensation for the additional costs of freight transport.

Spain is working to ensure that these provinces benefit from the most favourable legal regime.

### **Position of the Confederaciones de Cuenca, Teruel and Soria:**

- **Exemption from social contributions**

The document presented by the Confederaciones de Cuenca, Soria and Teruel in the public consultation on the Guidelines on national regional aid highlights the situation in **Norway**.

Norway has 2 regions considered to be “very sparsely populated”. Its incentive policy has been based on:

- Regional investment aid.
- Operating aid: Highlighting the **exemptions** for part of the **social contributions for companies** established in these depopulated regions.
  
- **Proposed changes for the revision of the Regional State Aid Guidelines:**
  - ✓ **To unify the definitions of ‘sparsely populated areas’ and ‘very sparsely populated areas’,** as no reasons have been given to maintain this distinction.
  - ✓ **Allow Cuenca, Soria and Teruel** to receive operating aids **well as ‘areas with very low population density’.**