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(Updates bond yields, adds ministers' meeting in third paragraph. For more on the euro crisis, TOP CRIS.)

By Angeline Benoit

July 9 (Bloomberg) -- Spanish Prime Minister Mariano Rajoy may unveil a third austerity round within days as his six-month- old government tries to avoid a second bailout amid hemorrhaging tax receipts.

Rajoy said on July 2 that the time has come to "press the accelerator pedal" as his government attempts to bring down near record borrowing costs. Government officials have said they are considering raising taxes on gas and products that currently have a reduced rate, such as food, water, public transportation, hotels and restaurants.

Spain's return to recession is undermining efforts to cut the euro area's third-largest budget deficit as tax receipts shrivel. Ten-year bond yields climbed back above 7 percent today as European finance ministers meet to discuss the worsening debt crisis. Spain became the fourth euro-region country to seek a bailout in June to shore up banks burdened with bad loans.

"I have my doubts because it is very difficult to boost receipts amid austerity," Antonio Javier Ramos Llanos, economy professor at Madrid's Universidad Pontificia Comillas, said in an interview. "Citizens see they are paying more tax and public services cost more. That doesn't incite them to spend at all."

Tax Receipts

The yield on Spain's benchmark 10-year bond rose to 7.06 percent at 10:00 a.m. in Madrid, from 6.954 percent on July 6, rising back above the 7 percent threshold that prompted full bailouts in Greece, Ireland and Portugal.

Undermining efforts to rein in the deficit, receipts dropped 1.5 percent during the first five months of the year as higher levies on income, electricity and tobacco failed to compensate for a 10 percent slump in value-added tax revenue.

Spending rose 12 percent as the state bailed out regional governments and interest payments surged 32 percent.

Rajoy's Socialist predecessor, Jose Luis Rodriguez Zapatero, saw tax income fall by 19 percent between 2007 and
2011 as the economy shrank, even as he added levies and scrapped rebates.

An option for Rajoy is to give up on a tax rebate for homeowners months after reversing the Socialists' decision to scrap it. Tolls could also be introduced on roads and government officials aren't ruling out cutting public wages or subsidies for the unemployed.

Tax Goals

Since 2008, Spain has systematically collected less tax than the government forecast. Zapatero scrapped a tax rebate and raised value-added tax and income tax for the richest, alongside cutting public wages, benefits for parents and freezing pensions.

"It will probably get worse," said Rafael Pampillon, head of economic analysis at the Instituto Empresa business school in Madrid. "I don't see companies generating more profits or families earning and spending more as unemployment grows and salaries become lower."

The government wants to generate 4.3 percent more tax revenue this year than in 2011, or 167.8 billion euros. That compares with last year's budget deficit of 95.5 billion euros and the 29 billion euros the country expects to pay this year in debt costs. The plan hinges on an additional 12.3 billion euros from taxes on income, profits, tobacco and legal procedures.

Jobless Youth

Still, the government predicts domestic demand, including spending by public administrations, will shrink 3.1 percent, more than four times the pace of last year. Spain's unemployment rate, the highest in the European Union, increased to 24.6 percent in May. More than half of Spanish youth are jobless.

The International Monetary Fund forecasts output will shrink 1.8 percent this year. Exports, which the government is relying on to spur the economy, dropped in April for the first time since 2009.

Cash-strapped regions and town halls are now stepping up austerity as they seek to cut their deficits in half this year.

In Madrid, the price of metro tickets has jumped 29 percent.

Water prices are set to rise for the second time in six months and students will pay more to go to university.

Spain registered its first negative savings rate on record in the first quarter as households' income fell 1.8 percent, the National Statistics Institute said July 4.

Hampering Investment

Increasing taxes may encourage tax evasion in Spain, which already has the lowest tax-to-gross domestic product ratio in the euro region, Pampillon said. Industry lobbies for businesses from hotels to bakers have protested the increase in VAT.

In a study released by Madrid's Universidad Pontificia Comillas on July 5, 78 percent of 220 companies interviewed said tax rules are unstable and 73 percent said this hampers investment decisions.

"The state's haste to increase tax receipts is generating uncertainty and that harms investment," said Ramon Casero Barron, a law teacher at the university.

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