

dossier

3 febbraio 2021

# Taxation in Italy: an overview

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SERVIZIO STUDI

UFFICIO PER LE RICERCHE NEI SETTORI ECONOMICO E FINANZIARIO

TEL. 06 6706-2451 - ✉ - [studi1@senato.it](mailto:studi1@senato.it) -  [@SR\\_Studi](https://twitter.com/SR_Studi)

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*SERVIZIO RESPONSABILE:*

SERVIZIO STUDI

DIPARTIMENTO FINANZE

TEL. 06 6760-2233 - ✉ - [st\\_finanze@camera.it](mailto:st_finanze@camera.it) -  [@CD\\_finanze](https://twitter.com/CD_finanze)

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## INTRODUCTION

The purpose of this work is to provide a brief overview of Italian taxation and, in particular, of those taxes under attention of legislators in recent years, both because of their political and economic importance (for example, the debate on taxation of labour and productive activities), and their effects on public finances (e.g. measures on tax compliance).

This *dossier* collects short summaries on legislation of single taxes or tax measures; the latest legislative interventions, for each of them; significant matters and proposals coming from parliamentary work, public and private institutions.

In the current emergency context, and considering the resources available through the European Recovery Fund, **tax reform** is one of the components of the *National Recovery and Resilience Plan (January 2021)*. As announced in the guidelines (September 2020), the Government intends to review taxation, in particular personal income tax, to reduce tax wedge on labour and to shift the tax burden to other items and, in general, “from people to things”, also in response to numerous recommendations from the European institutions.

The involvement of Parliament in the implementation of the tax reform - which is going to take place as an enabling law (delegation law) - is ensured through the definition of guiding principles and delegation criteria and, subsequently, by delivering parliamentary advice on implementing decrees.

It should also be reminded that the Chamber’s VI Standing Committee on Finance and the Senate’s 6th Committee on Finance and Treasury have started, on November 11<sup>th</sup> 2020, a comprehensive fact-finding survey on tax reform, in order to gather views coming from different stakeholders, and to explore the main outstanding issues.

Budget Law for 2021 (Law No 178 of 2020, par. 2 to 7) established a **fund** with a budget of EUR 8,000 million for 2022 and EUR 7,000 million from 2023 onwards, to finance the **reform of the tax system**, to be implemented by means of appropriate legislative measures. Resources resulting from the improvement of voluntary tax compliance are allocated to the fund. A share of the fund of not less than EUR 5,000 million and not more than EUR 6,000 million as of 2022 shall be allocated to the so-called universal allowance and to interventions for households and families.

It should be noted that a recent reform action was carried out at the beginning of the legislature, with the 2019 Budget Law, by extending the flat-rate scheme for professionals and self-employed workers, based on a single substitute tax at 15% rate (as introduced by the 2015 Stability Law), to taxpayers with revenues up to EUR 65,000.

The same law allowed persons engaged in business activities, arts or professions with revenues between EUR 65,001 and EUR 100,000 to apply a flat tax (instead of regular income tax, regional and municipal income and IRAP - regional tax on productive activities) at 20% rate. This latter provision was repealed by 2020 Budget Law.

It should also be recalled that a previous attempt at tax reform was carried out during the 17th parliamentary term, by Law No 23 of 11 March 2014, which empowered the Government to establish a fairer, more transparent and growth-oriented tax system.

Measures have been taken concerning, inter alia: tax simplifications and tax returns; taxation of manufactured tobacco; composition, powers and functioning of cadastral committees; electronic invoicing and electronic transmission of VAT transactions; rules on legal certainty in the relationship between the tax authorities and the taxpayer; measures for business growth and internationalisation; revision of rules governing tax disputes; review of the rules governing the organisation of tax agencies; revision of the sanctioning system; measures for the simplification of tax collection rules; estimation and monitoring of tax evasion, monitoring and reorganisation of tax erosion provisions.

The deadline for implementing the delegation expired on 27 June 2015. The following areas of delegation have not been implemented or only partially implemented: rules concerning land register; tax collection by local authorities and corporate income taxation; rationalisation of VAT and other indirect taxes, revision of rules on public gaming and reform of the horse-racing sector; energy and environmental taxation.

It should be pointed out that a number of [extraordinary fiscal measures](#) have been adopted to deal with the Coronavirus emergency, many of which are of a temporary nature, aimed at preventing and curbing its expansion and its effects on the economic system.

These emergency measures have been issued since March 2020 to support families, workers and businesses: Decree-Law No 9 of 2020, whose measures were then incorporated into the subsequent broader legislative action contained in Decree-Law no 18 of 2020, Cura Italia, Decree-Law no 23 of 2020, Liquidity, Decree-Law no 34 of 2020, Rilancio, Decree-Law no 104 of 2020, Agosto, and, most recently, [Decree-Law no 137 of 2020 Ristori](#), which incorporated three further Decree-Laws (no 149, no 154 and no 157 of 2020). [2021 Budget Law](#) also contains fiscal measures to face emergency.

## IRPEF AND TAXATION ON LABOUR

### *Personal Income Tax — IRPEF*

Personal income tax (IRPEF) is regulated by the Consolidated Income Tax Act (Presidential Decree No 917 of 22 December 1986). It applies to income falling within certain categories defined by law (property income, capital income, compensation of employees, self-employment, business income, miscellaneous income) and is a **progressive tax** as it is levied on income at rates that depend on income brackets. There are currently **five income brackets** with the following rates:

- up to EUR 15,000.23 %;
- from EUR 15,000.01 to EUR 28,000.27 %
- from EUR 28,000.01 to EUR 55,000.38 %
- from EUR 55,000.01 to EUR 75,000.41 %
- more than EUR 75,000.43 %.

The progressive nature of the tax is also ensured by the existence of a complex system of **deductions, tax reductions and tax credits**, stratified over time.

It is also necessary to add the **regional and municipal surcharges to the IRPEF**, which apply to the total income determined for the purposes of the IRPEF and must be paid if, for the reference year, the IRPEF is due.

There is provision for *a no tax area* resulting from the application of the different deductions for employees, pensions or self-employment, which are decreasing as income increases.

The *no tax area* varies according to the different categories of taxpayers: it amounts to around EUR 8,145 for employees, to around EUR 8,130 for pensioners, to EUR 4,800 for self-employed workers. Taking into account also the allowances for dependent family members, *the no tax area* for a single-income family with two parents and two children is about EUR 16,340. The reduction of the IRPEF to zero brings the corresponding regional and municipal add-ons to zero.

In recent years, the legislator has intervened on the regulation of the IRPEF - particularly as a result of requests from **the European institutions - mainly to reduce the tax wedge** (taxation and contributions on labour) and **boost consumption**. At the same time, the IRPEF interventions have pursued additional objectives, **such as reorganising facilities, encouraging traceable payments** and revitalising **specific economic sectors**. To that end, the legislature focused on the **system of deductions, tax reductions and tax credits** mentioned above, leaving **unchanged both the structure and the general conditions for the tax**.

### *Reducing the tax wedge*

Most recent measures include the 2020 budget law, which set up a **fund to reduce the tax burden on employees**, with a budget of EUR 3 billion for 2020 and EUR 5 billion from 2021; by Decree-Law No 3 of 2020, the measures to reduce the tax wedge were implemented in practice.

Since 1 July 2020, a sum has been granted as a supplement to labour and similar income, subject to specific conditions (gross tax exceeding the amount of the deduction due per employee). In essence, the monthly payroll *bonus* measure for these categories of taxpayers has been increased from EUR 80 to EUR 100 (introduced by Decree-Law No 66 of 2014, which was repealed at the same time); the income limit for full entitlement to the relief has also been increased (from EUR 24,600 to EUR 28,000). A temporary additional income support measure has been introduced in the form of a deduction from gross tax for holders of total income of between EUR 28,000 and EUR 40,000 (six months from 1 July to 31 December 2020).

**Budget Law for 2021 made the deduction permanent**, specifying that, from January 1st, 2021, the aid is granted for amounts twice as high as those provided for in the second half of 2020 alone, namely:

- EUR 960, increased by product between EUR 240 and the amount corresponding to the ratio between EUR 35,000, less total income, and EUR 7,000, if the total income exceeds EUR 28,000 but does not exceed EUR 35,000;
- EUR 960 if the total income exceeds EUR 35,000 but does not exceed EUR 40,000; the deduction shall be due in respect of the part corresponding to the ratio between the amount of EUR 40,000, less total income, and the amount of EUR 5,000.

It should be noted that [the Parliamentary Budget Office](#) affirmed that the planned intervention, and specifically the extension of the monetary transfer, which is the permanent element of the measure, **makes a comprehensive and structural reform of the Irpef even more complex**. Taken in isolation, it exacerbates the unequal tax treatment of persons with different sources of income and family characteristics and exacerbates the irregularity of marginal rates, even though for 2020 this is counterbalanced by the introduction of the additional deduction. These considerations are also shared by the representatives of [trade unions](#) and the [National Association of Accountants](#), who stress the need for similar measures to be taken on the **self-employed**, whose *tax rates* (worker's social security contributions, IRPEF and related additional contributions) currently appear to be significantly higher.

		DIPENDENTE		PENSIONATO		AUTONOMO		AUTONOMO FLAT TAX	
12.000 EURO LORDI	REDDITO LORDO	12.000	100,00%	12.000	100,00%	12.000	100,00%	12.000	100,00%
	CONTRIBUTI A CARICO LAVORATORE	1.080	9,00%		0,00%	3.000	25,00%	3.000	25,00%
	REDDITO IMPONIBILE	10.920		12.000		9.000		9.000	
	IRPEF	763	6,99%	1.213	10,11%	1.058	11,76%	1.350	15,00%
	ADDITIONALE REGIONALE	134	1,23%	148	1,23%	111	1,23%		
	ADDITIONALE COMUNALE	87	0,80%	96	0,80%	72	0,80%		
	BONUS 100 EURO	1.200							
<b>REDDITO NETTO DISPONIBILE</b>	<b>11.135</b>	<b>92,79%</b>	<b>10.543</b>	<b>87,86%</b>	<b>7.759</b>	<b>64,66%</b>	<b>7.650</b>	<b>63,75%</b>	
24.000 EURO LORDI	REDDITO LORDO	24.000	100,00%	24.000	100,00%	24.000	100,00%	24.000	100,00%
	CONTRIBUTI A CARICO LAVORATORE	2.160	9,00%		0,00%	6.000	25,00%	6.000	25,00%
	REDDITO IMPONIBILE	21.840		24.000		18.000		18.000	
	IRPEF	4.041	18,50%	4.875	20,31%	3.446	19,15%	2.700	15,00%
	ADDITIONALE REGIONALE	269	1,23%	295	1,23%	221	1,23%		
	ADDITIONALE COMUNALE	175	0,80%	192	0,80%	144	0,80%		
	BONUS 100 EURO	1.200							
<b>REDDITO NETTO DISPONIBILE</b>	<b>18.556</b>	<b>77,32%</b>	<b>18.638</b>	<b>77,66%</b>	<b>14.188</b>	<b>59,12%</b>	<b>15.300</b>	<b>63,75%</b>	
36.000 EURO LORDI	REDDITO LORDO	36.000	100,00%	36.000	100,00%	36.000	100,00%	36.000	100,00%
	CONTRIBUTI A CARICO LAVORATORE	3.240	9,00%		0,00%	9.000	25,00%	9.000	25,00%
	REDDITO IMPONIBILE	32.760		36.000		27.000		27.000	
	IRPEF	7.963	24,31%	9.384	26,07%	6.074	22,50%	4.050	15,00%
	ADDITIONALE REGIONALE	403	1,23%	443	1,23%	332	1,23%		
	ADDITIONALE COMUNALE	262	0,80%	288	0,80%	216	0,80%		
	BONUS 100 EURO	1.037							
<b>REDDITO NETTO DISPONIBILE</b>	<b>25.169</b>	<b>69,91%</b>	<b>25.885</b>	<b>71,90%</b>	<b>20.378</b>	<b>56,60%</b>	<b>22.950</b>	<b>63,75%</b>	
48.000 EURO LORDI	REDDITO LORDO	48.000	100,00%	48.000	100,00%	48.000	100,00%	48.000	100,00%
	CONTRIBUTI A CARICO LAVORATORE	4.320	9,00%		0,00%	12.000	25,00%	12.000	25,00%
	REDDITO IMPONIBILE	43.680		48.000		36.000		36.000	
	IRPEF	12.508	28,64%	14.333	29,86%	9.582	26,62%	5.400	15,00%
	ADDITIONALE REGIONALE	537	1,23%	590	1,23%	443	1,23%		
	ADDITIONALE COMUNALE	349	0,80%	384	0,80%	288	0,80%		
	BONUS 100 EURO								
<b>REDDITO NETTO DISPONIBILE</b>	<b>30.285</b>	<b>63,09%</b>	<b>32.693</b>	<b>68,11%</b>	<b>25.687</b>	<b>53,51%</b>	<b>30.600</b>	<b>63,75%</b>	

Source: National Chamber of Accountants

From a different point of view, several **measures have taken place over the last few years to attract human resources to Italy**, providing for benefits to individuals who transfer their tax residence. Please note here the Legislative Decree No 147 of 2015, which introduces substantial IRPEF reductions for workers who, having not been resident in Italy in the previous five tax periods, transfer their tax residence to the territory of the State. 2021 Budget Law, paragraph 50, allows persons who transferred residence to Italy before 2020 to benefit from the extension of the mentioned tax scheme.

### *The system of deductions and deductions (tax expense or tax expense)*

The issue of tax expenditure has *been at the* heart of the debate for several years. The information needs associated with it were met thanks to the procedure for [monitoring tax expenditure](#) redesigned by Legislative Decree No 160 of 2015, which provides for **two instruments with distinct characteristics**.

On the one hand, **the annual report on tax expenditure**, entrusted to a Commission on tax liabilities and annexed to the statement of revenue of the Budget Law, lists any form of exemption, exclusion, reduction of the tax base or tax or preferential scheme resulting from existing legislation, with a separate indication of those introduced in the previous year and during the first six months of the current year.

On the other hand, **the programme report**, annexed to the DEF update note, sets out measures to reduce, eliminate or reform tax expenditures in whole or in

part that are unjustified or outdated in the light of changing social or economic needs or which overlap with spending programmes with the same objectives, to be implemented through the fiscal policy.

With reference to the **definition of tax expenditure**, the Commission recalls that, in paragraph 2 of the previous report, the possible options and the theoretical and methodological reasons that led the Commission to unanimously choose **the legal benchmark approach** were discussed. In operational terms, it is established whether a provision of a preferential nature is a structural feature of the tax, or whether it constitutes a deviation from the rule, in the latter case the provision is regarded as tax expenditure. In this respect, the Commission highlights some of the **main implications of this methodological choice** for the three major taxes considered.

In the field of the **IRPEF**, they were **not** classified as tax expenses: Deductions for income production expenses (compensation of **employees**, pensions and similar income) or for **dependent family members**, in line with the practices of some other countries; substitute taxes on property income; the separate taxation system for the income situations referred to in Article 17 of the TUIR. In the field of **IRES**, neither the provisions on the ACE nor the provisions on *participation exemption*, which clearly represents a structural and systemic choice, were considered to be tax expenditure. In the field of **VAT**, reduced rates were not considered to be tax expenditure, even if they were due to a structural choice. In the field of **social security**, it was decided not to treat as tax expenditure the deduction of compulsory contributions, due to their structural nature.

In this connection, we would point out that, according to the data available on the MEF-Finance Department's website under the [Statistical Analysis — Statements 2019 — Tax Year 2018](#) section, the total income declared is approximately EUR 880 billion, with an average value of EUR 21,660 (+ 4.8 % compared to 2017).

## Analisi statistiche - Dichiarazioni 2019 - Anno d'imposta 2018

Fonte Dipartimento Finanze Mef - Ammontare in migliaia di euro

Classi di reddito in euro	Numero contribuenti	Reddito complessivo		Deduzione abitazione principale	Oneri		Imposta lorda	Detrazioni d'imposta	Imposta netta	
		Ammontare	Scaglioni		%	deducibili			imponibile	Ammontare
minore di -1.000	3.414	-26.311		948	6.360	0	0	5.246	0	
da -1.000 a 0	2.007	-850		0	2.116	0	0	2.559	0	
zero	748.072	0		0	241.016	41	9	100.375	9	
da 0 a 1.000	2.361.867	999.809		249.815	337.075	719.618	154.513	1.120.178	41.784	
da 1.000 a 1.500	612.171	760.025		74.950	88.927	645.893	143.297	487.408	31.017	
da 1.500 a 2.000	513.154	896.875		47.097	75.023	793.325	175.452	468.775	33.668	
da 2.000 a 2.500	468.366	1.056.248		37.722	70.624	937.762	208.297	468.053	36.902	
da 2.500 a 3.000	442.162	1.215.403		35.210	73.160	1.079.246	239.280	480.270	36.931	
da 3.000 a 3.500	386.418	1.255.592		30.980	75.777	1.123.197	248.334	462.777	34.397	
da 3.500 a 4.000	383.299	1.438.162		29.823	78.858	1.286.701	284.557	486.439	36.399	
da 4.000 a 5.000	762.130	3.439.589		58.797	170.360	3.097.367	682.955	1.026.608	84.293	
da 5.000 a 6.000	765.207	4.216.478		62.912	185.998	3.824.532	834.592	1.150.587	84.990	
da 6.000 a 7.500	2.433.396	16.416.372		182.213	325.935	15.715.565	2.956.120	4.403.456	166.107	
da 7.500 a 10.000	2.720.882	23.810.506		324.011	692.464	22.481.503	5.097.214	5.165.922	699.689	
da 10.000 a 12.000	2.312.440	25.418.149		336.453	711.981	24.102.482	5.533.360	4.506.931	1.413.783	
da 12.000 a 15.000	3.242.012	43.802.118	<b>14%</b>	558.161	1.241.718	41.561.361	9.551.743	6.274.262	3.621.707	<b>4%</b>
da 15.000 a 20.000	5.724.419	100.573.195		1.105.082	2.381.733	96.194.952	22.607.152	10.840.713	12.040.102	
da 20.000 a 26.000	6.529.233	148.885.776		1.543.272	2.930.253	143.045.943	34.719.988	12.686.013	22.194.316	
da 26.000 a 29.000	2.337.215	64.133.617	<b>36%</b>	675.184	1.312.387	61.375.328	15.189.232	4.394.560	10.830.843	<b>27%</b>
da 29.000 a 35.000	3.216.463	102.044.457		1.075.145	2.296.020	97.097.202	25.260.382	5.896.841	19.401.073	
da 35.000 a 40.000	1.543.807	57.569.808		590.722	1.540.432	54.224.516	14.970.709	2.733.338	12.252.939	
da 40.000 a 50.000	1.536.053	67.979.719		660.918	2.297.169	63.189.576	18.383.230	2.539.783	15.859.306	
da 50.000 a 55.000	411.911	21.570.897	<b>28%</b>	194.447	891.522	19.819.649	6.017.641	615.673	5.406.262	<b>32%</b>
da 55.000 a 60.000	307.712	17.660.545		151.741	778.466	16.179.303	5.025.084	444.615	4.583.697	
da 60.000 a 70.000	442.051	28.584.178		228.444	1.287.055	26.190.496	8.402.713	664.810	7.742.146	
da 70.000 a 75.000	168.753	12.222.908	<b>7%</b>	91.893	561.094	11.220.658	3.703.052	262.253	3.442.386	<b>10%</b>
da 75.000 a 80.000	142.239	11.010.696		79.551	509.857	10.107.479	3.388.173	227.078	3.162.015	
da 80.000 a 90.000	209.991	17.778.299		122.883	872.833	16.244.728	5.560.002	351.873	5.209.837	
da 90.000 a 100.000	143.228	13.565.865		86.900	712.303	12.338.192	4.326.225	254.767	4.072.831	
da 100.000 a 120.000	177.355	19.322.074		112.757	1.074.568	17.510.217	6.309.851	341.924	5.969.672	
da 120.000 a 150.000	132.643	17.656.470		89.463	949.715	16.046.464	5.981.692	293.237	5.690.001	
da 150.000 a 200.000	94.003	16.071.508		67.751	766.072	14.738.136	5.683.889	249.526	5.435.449	
da 200.000 a 300.000	57.829	13.805.676		45.278	572.363	12.782.749	5.090.530	190.780	4.900.622	
oltre 300.000	40.949	24.823.587	<b>15%</b>	36.959	612.399	23.789.571	9.929.587	201.067	9.729.094	<b>27%</b>
<b>TOTALE</b>	<b>41.372.851</b>	<b>879.957.440</b>	<b>100%</b>	<b>8.987.870</b>	<b>26.723.632</b>	<b>829.463.901</b>	<b>226.658.853</b>	<b>69.798.696</b>	<b>164.244.267</b>	<b>100%</b>

PERSONE FISICHE  
DISTRIBUZIONE PER REGIONE DEL REDDITO COMPLESSIVO 2017 E 2018

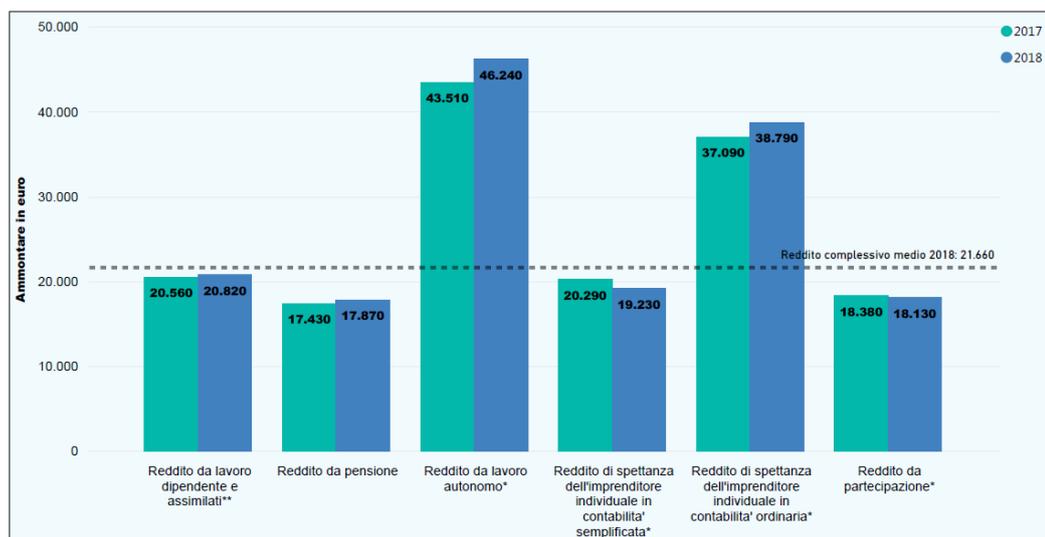
REGIONE	2018			2017*			Variazione 2017-2018		
	Reddito complessivo			Reddito complessivo			Reddito complessivo		
	Frequenza	Ammontare	Media	Frequenza	Ammontare	Media	Frequenza	Ammontare	Media
Piemonte	3.140.229	72.788.582	23,18	3.131.390	70.842.201	22,62	0,28%	2,75%	2,46%
Valle d'Aosta	96.349	2.203.850	22,87	95.786	2.160.075	22,55	0,59%	2,03%	1,41%
Lombardia	7.161.738	183.814.755	25,67	7.095.793	177.281.238	24,98	0,93%	3,69%	2,75%
Liguria	1.161.102	26.458.051	22,79	1.159.880	25.866.844	22,30	0,11%	2,29%	2,19%
Trentino Alto Adige(P.A.Trento)	420.195	9.350.542	22,25	410.396	8.983.588	21,89	2,39%	4,08%	1,64%
Trentino Alto Adige(P.A.Bolzano)	427.970	10.596.794	24,76	422.461	10.153.081	24,03	1,30%	4,37%	3,02%
Veneto	3.583.779	81.390.245	22,71	3.547.777	78.657.944	22,17	1,01%	3,47%	2,43%
Friuli Venezia Giulia	922.883	20.821.039	22,56	919.217	20.216.364	21,99	0,40%	2,99%	2,58%
Emilia Romagna	3.354.700	79.704.699	23,76	3.329.521	77.160.610	23,17	0,76%	3,30%	2,53%
Toscana	2.703.408	60.146.563	22,25	2.684.167	58.226.185	21,69	0,72%	3,30%	2,57%
Umbria	619.056	12.649.704	20,43	617.505	12.255.407	19,85	0,25%	3,22%	2,94%
Marche	1.106.791	22.475.709	20,31	1.103.487	21.771.998	19,73	0,30%	3,23%	2,94%
Lazio	3.817.918	89.931.587	23,56	3.807.100	87.725.359	23,04	0,28%	2,51%	2,25%
Abruzzo	892.107	16.431.957	18,42	890.326	15.945.958	17,91	0,20%	3,05%	2,85%
Molise	206.690	3.434.979	16,62	206.675	3.336.684	16,14	0,01%	2,95%	2,94%
Campania	3.112.293	55.108.684	17,71	3.092.056	53.484.520	17,30	0,65%	3,04%	2,39%
Puglia	2.525.462	42.314.215	16,76	2.516.687	41.027.065	16,30	0,35%	3,14%	2,81%
Basilicata	371.639	6.183.923	16,64	371.123	5.973.157	16,09	0,14%	3,53%	3,39%
Calabria	1.153.336	17.796.332	15,43	1.155.645	17.402.911	15,06	-0,20%	2,26%	2,46%
Sicilia	2.796.428	47.252.197	16,90	2.802.901	46.163.226	16,47	-0,23%	2,36%	2,61%
Sardegna	1.045.968	19.062.467	18,22	1.037.540	18.456.195	17,79	0,81%	3,28%	2,43%
Mancante/errata	4.738	40.566	8,56	5.513	17.651	3,20			
<b>TOTALE</b>	<b>40.624.779</b>	<b>879.957.440</b>	<b>21,66</b>	<b>40.402.946</b>	<b>853.108.261</b>	<b>21,12</b>	<b>0,55%</b>	<b>3,15%</b>	<b>2,58%</b>

Importi espressi in migliaia di euro

Source: MEF Statistics on tax returns — Analysis of Irpef data 2018 tax year

The most declared types of income, both in terms of frequency and amount, are those relating to employees (52.6 % of total income) and pensions (29.3 % of total income).

**Graf. 4a - VALORI MEDI DEI REDDITI SOGGETTI A TASSAZIONE ORDINARIA  
(AL NETTO DEI CONTRIBUENTI IN REGIME FISCALE DI VANTAGGIO E REGIME FORFETARIO)**



Source: MEF Statistics on tax returns — Analysis of Irpef data 2018 tax year

In this context, the total **deductions** amount to around **EUR 70 billion** and are mainly composed of:

- deductions for compensation of employees and pensions (61.6 %)

- household loads (17.7 %)
- deductible charges at 19 % (8.8 %)
- expenditure on building recovery (9.7 %) and expenditure on energy savings (2.4 %).

In more detail, household care **deductions in 2018** amount to around **EUR 12 billion** (around EUR 8 billion in income brackets ranging from EUR 12 to EUR 35,000) **and EUR 42.5 billion** in deductions for **compensation of employees** (more than 30 billion in income brackets ranging from EUR 12 to EUR 26,000).

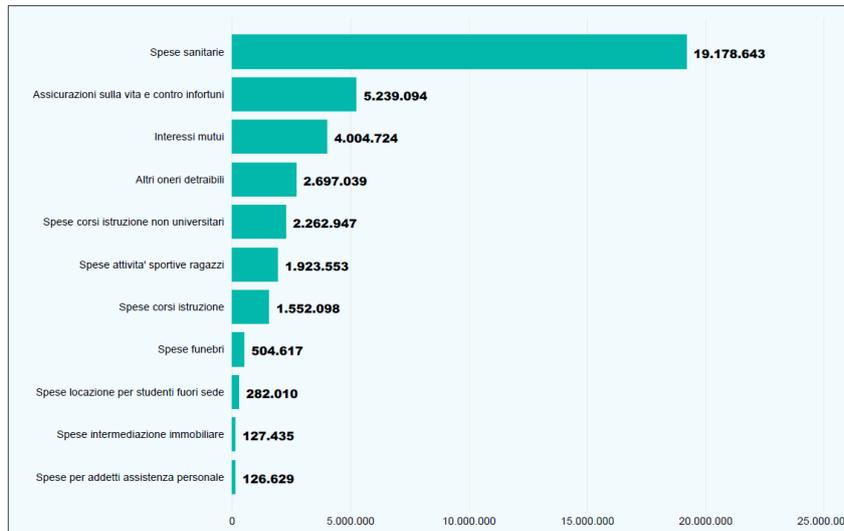
In addition, the comparison with the previous year shows increases for the following deductions:

- Deductible charges at 19 % (+ 5.0 %);
- Building recovery costs (+ 11.9 %);
- Expenditure on energy savings (+ 9.2 %);
- Expenditure on furniture for renovated buildings (+ 21.3 %).

Of particular interest is an analysis of the data on **deductible charges at 19 %** (about **EUR 31.4 billion**), which shows an increase of 4.7 % compared to 2017. Analysis of the components, compared with the previous year, shows the increase in health expenditure (+ 4.8 %), expenditure on non-tertiary education (+ 11.2 %) and expenditure on education (+ 5.0 %); for expenditure on non-university education, it is recalled that in 2018 the deductible amount was increased from EUR 717 to EUR 786. The ‘other deductible charges’ doubled compared to 2017, the trend being influenced by the presence of local public transport costs in 2018.

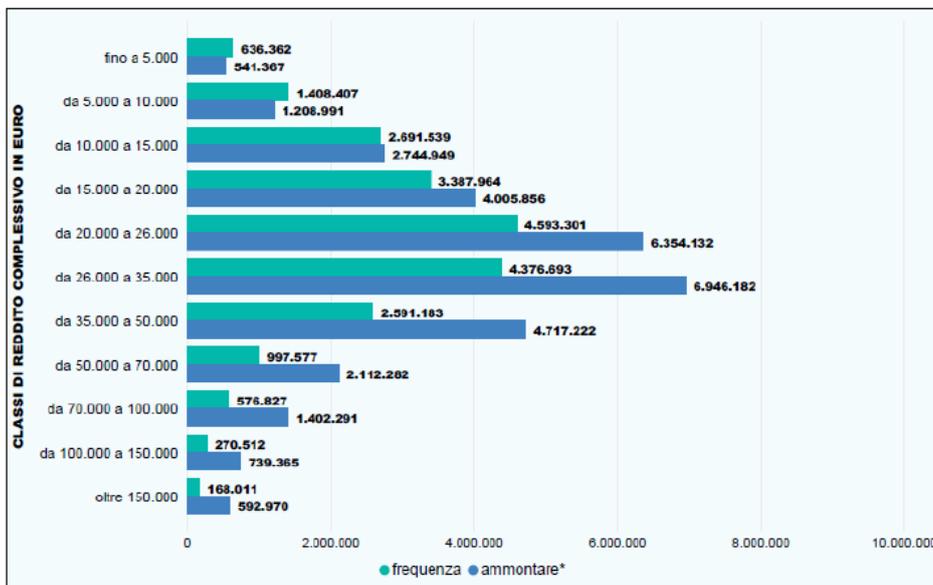
Pending the reorganisation of the deduction system, the latter category of deductions (Article 15 TUIR) was reduced for taxpayers with an income of more than EUR 120,000, with the exception of interest costs on loans and loans for the purchase of the main residence and healthcare costs. The use of the deduction is conditional on the use of traceable payment systems.

GRAF. 13 - DISTRIBUZIONE DELLE FREQUENZE DEGLI ONERI DETRAIBILI AL 19%



Source: MEF Statistics on tax returns — Analysis of Irpef data 2018 tax year

GRAF.15- DISTRIBUZIONE PER CLASSI DI REDDITO COMPLESSIVO DEL TOTALE ONERI DETRAIBILI AL 19%



\* ammontare espresso in migliaia di euro

Source: MEF Statistics on tax returns — Analysis of Irpef data 2018 tax year

It is particularly important in this context to regulate the facilities for **building renovation** and energy renovation, as extended by the 2020 budget law and reinforced by the decree-laws issued to deal with the COVID-19 outbreak (*Superbonus* 110 %), for which reference is made to the section on property taxation.

According to the latest **Annual Report on Tax Expenditure** (annexed to the 2020 Budget Law), for **2021, tax expenditure** (Table 7) - amounting to more than EUR 119.2 million grants provided - totalled **EUR 68 billion** (an increase of around EUR 5,6 billion compared to the 2020 forecast in the 2019 report).

**Tavola 7 - Spese fiscali per classi di costo in termini di gettito**

Classi di costo in termini di gettito Anno 2021	Numero spese fiscali	Numero spese fiscali %	Frequenze beneficiari	Ammontare 2021 (in milioni di euro )	Ammontare 2022 (in milioni di euro )	Ammontare 2023 (in milioni di euro )
<10	204	33,9%	678.315	-438,6	-463,1	-448,2
10-20	27	4,5%	924.681	-381,1	-382,2	-433,6
20-50	44	7,3%	4.250.898	-1.402,1	-1.375,0	-1.417,9
50-100	24	4,0%	2.884.270	-1.733,1	-1.462,0	-1.408,9
100-300	31	5,1%	17.097.070	-4.760,4	-4.551,7	-4.995,6
300-1mln	28	4,7%	23.292.813	-14.442,9	-13.901,1	-14.641,1
>1mln	16	2,7%	70.568.072	-44.938,1	-42.554,0	-41.789,0
Effetti di trascurabile entità	29	4,8%	271	N.D.	N.D.	N.D.
Non quantificabile	151	25,1%	226	N.D.	N.D.	N.D.
Stima già compresa in altra misura	48	8,0%	N.D.	N.D.	N.D.	N.D.
<b>TOTALE</b>	<b>602</b>	<b>100%</b>	<b>119.696.617</b>	<b>-68.096,4</b>	<b>-64.689,2</b>	<b>-65.134,5</b>

In 2021, most of the tax expenditures have an impact on the **IRPEF** amounting at **EUR 39.3 billion, or 57.8 %** (compared with EUR 43 billion in 2020, or 68.9 %), on **tax credits** amounting at **EUR 6.5 billion, or 9.6%**, and on **registration, stamp and mortgage and cadastral taxes** amounting at **EUR 6.2 billion, or 9.2 %**.

According to an analysis of the data from the IRPEF declarations, in 2018 **deductions** amounted to more than **EUR 35.7 billion** (+0.6 % compared to 2017) and are divided between:

- Deduction per **main residence** (approx. EUR 9.0 billion)
- **Deductible expenses** (EUR 26.7 billion), the main item of which, both in terms of frequency **and amount, relates to social security contributions** (73 %).

These are mainly burdens relating to **individual entrepreneurs and self-employed persons**: those taxpayers must include in their return their income before those contributions, which are then deducted before the calculation of the taxable amount for the IRPEF. In this case, the legislation differs from employees who report income in return already after deduction of contributions.

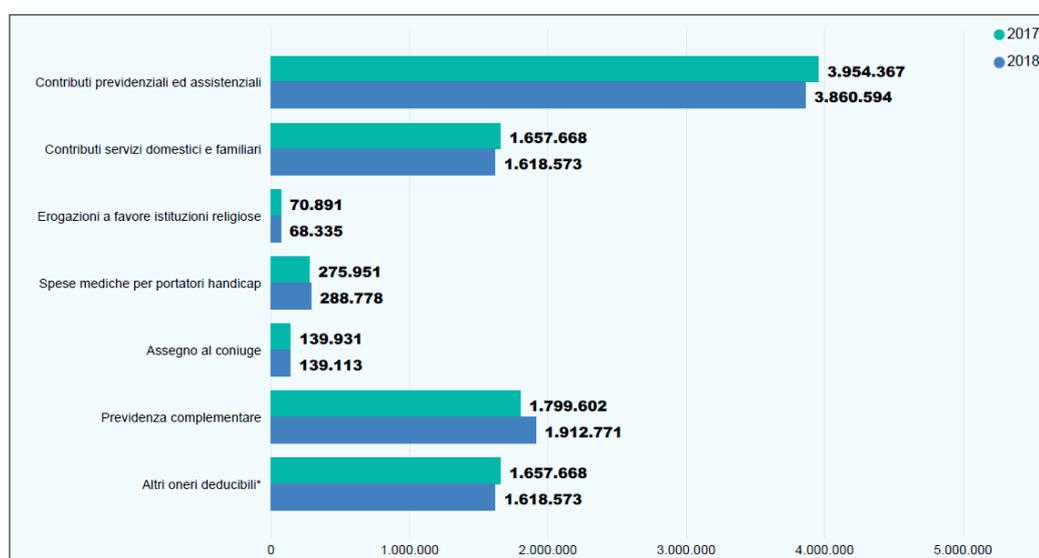
In comparison with 2017, deductible expenses show an increase of 0.5 %, mainly due to supplementary pension schemes (+6.5 %), medical expenses for persons with disabilities (+5.5 %) and contributions for domestic and family services (+1.6 %); on the other hand, social security contributions have been reduced (-0.9 %).

In 2018, the deductible charges also include liberal payments to non-profit organisations, voluntary organisations and associations for social advancement, for which, under the new Third Sector Code, there is a choice between deduction and tax credit. The deduction is provided for up to 10 % of the total declared income and has been used by more than 333.000 persons for an amount of EUR 135.2 million.

On the other hand, those who have opted to deduct 30 % (in the case of payments to non-profit organisations and social promotion associations), up to a maximum of EUR 30,000, are over 201.500 tax payers, for an amount of EUR 72.6 million, while those who have opted to deduct 35 % (in the case of payments to voluntary organisations) are over 24.600, amounting to EUR 9,2 million.

It should be noted here that 2021 Budget Law contains numerous rules on **tax credits**, which have led to the introduction of new advantages (inter alia, in favour of professional cooks affected by the pandemic emergency, investors who have suffered losses linked to long-term savings plans (RIPs), allowances for training in managerial skills, advantages for purchasers of water purification systems) and extends, adjusts or amends other tax credits already in force. These measures are in addition to the set of **bonuses** - not strictly fiscal - that have been introduced on a *one-off* basis for the needs linked to the pandemic, both by emergency decrees (holiday bonus, mobility bonus, etc.) and by the 2021 Budget Law itself, thereby enriching and making the tax exemption system more complex.

GRAF. 11 - DISTRIBUZIONE DELLE FREQUENZE DEGLI ONERI DEDUCIBILI



\* comprende la quota di start-up attribuita dalla società in regime di trasparenza

Source: MEF Statistics on tax returns — Analysis of Irpef data 2018 tax year

## *Flat tax*

**Flat tax** is a **non-progressive tax system based on a fixed rate**, net of any tax deductions or reductions.

The first theorisation of this tax system is generally attributed to the economist Milton Friedman who reported on its functioning in 1956 at a conference at the Claremont College on the Distribution of Income. Subsequently, in 1962, this model was set out in detail in the ‘Capitalism and Liberty’ book. In the text, the economist stated that the better structure of personal income tax would be a **flat tax applied to any income in excess of a tax-free amount**, defining income in very broad terms and allowing only the deduction of strictly defined expenses incurred in order to earn the income itself. The scholar identified for the US **an optimal single rate of 23.5 % on the overall tax base**.

In Italy there are some types of *flat tax*:

### *1. Flat-rate scheme*

The rules governing the **flat-rate scheme** are reserved for natural persons who have earned income from an undertaking or self-employed person who, in the previous year, earned income or received annual remuneration of not more than EUR **65,000** and incurred expenses not exceeding EUR 20,000 gross in respect of ancillary work, employee work and fees for employees.

The fundamental discipline is contained in the 2015 Stability Law and was last amended as a result of the 2020 Budget Law. In a nutshell, access to this scheme entails the following tax rebates:

- preferential determination of taxable income through the application, to the income earned or the remuneration received, of a legally established profitability ratio, *with* the deduction of compulsory social security contributions, including those paid on behalf of employees of the family business which are taxable;
- application to taxable income of a single tax of 15 %, replacing those normally provided for (income tax, regional and municipal additional taxes, Irap); The substitute tax shall be reduced to 5 % for the first five years of operation subject to certain legal requirements.

General data on natural persons holding VAT numbers can be found in the [Analysis of 2018 IRPEF data](#), while for a statistical overview of the data collected in 2019, see the [factsheet of the Observatory on VAT numbers](#) of the Finance Department.

The latest [specific official data on professionals](#) registered in orders with VAT numbers have been compiled by Confassociazioni:

- around **3.9 million VAT numbers of natural persons** (free work and self-employment in the strict sense), of which: around 2.2 million VAT registrations for professions not organised in associations and associations; around 1,1 million VAT registrations of professions organised in associations and associations; around 600 thousand false VAT numbers;

- around **1.9 million professionals registered in 27 orders and colleges** generate around 6.6 % of GDP.

It should be noted here that the 2019 Budget Law provided for the introduction of a substitute tax of 20 % (so-called *flat tax*) to be applied to natural persons engaged in business activities, arts or professions if they had earned up to EUR 100,000 in the previous tax period.

The 2020 Budget Law repealed this substitute tax at 20 % and reintroduced, as a condition for access to the 15 % flat-rate scheme, the limit on the costs of staff and ancillary work, as well as the exclusion for compensation of employees in excess of EUR 30,000. It also established a reward system to encourage the use of e-invoicing.

## ***2. Corporate income tax - IRES***

Corporate income tax (IRES) is also comparable to a flat tax, since it is determined by applying a **single rate**, the amount of which, which varies over the years, is currently set at **24%** (paragraph 61 of Law No 208 of 28 December 2015 - Stability Law 2016). For a more detailed analysis of this tax see the relevant paragraph.

## ***3. Flat-rate income tax on letting out a house or flat***

It should also be considered that, in order to encourage the emergence of the tax base, the so-called **flat-rate income tax on letting out a house or flat** has been gradually extended. It makes it possible to opt for a substitute tax at a flat rate instead of the ordinary IRPEF rules (with different bands and rates).

The preferential scheme allows rental income (within the meaning of Legislative Decree No 23 of 14 March 2011) to be **taxed at 21 %, or at a lower rate**, subject to certain legal conditions. Taxpayers who have the right of ownership or the right in rem to enjoyment (for example, usufruct), who rent the property outside the business, the arts and professions, may opt for a flat-rate income tax. The option can be exercised for real estate units belonging to cadastral categories A1 to A11 (excluding A10, private offices or firms) **located for residential use and for related appliances**.

Decree-Law No 50 of 2017 made it possible to opt for a 21 % flat-rate income tax payment also for income from **so-called short lettings**, i.e. rental contracts for residential property, provided that they are entered into by natural persons outside the business, either directly or in the presence of intermediaries and also *online*. The measure introduced specific information requirements for intermediaries; if those persons also intervene at the stage of payment of the rent, they are required to apply a withholding tax of 21% at the time of the credit, by way of advance payment or tax, depending on whether or not the flat-rate income tax option has been made. Budget Law for 2021 limited the 21% flat-

rate income on short leases to the lending of no more than four apartments per tax period, otherwise assuming a business operation for tax purposes.

Subsequently, the 2019 Budget Law allowed the use of flat-rate income tax for **the lease of commercial premises concluded only in 2019**, provided that these properties are classified in the cadastral category C/1 and have certain area limits (up to 600 m<sup>2</sup>).

The 2020 Budget Law reduced the rate of **the tax rate on rents for residential property in municipalities with a high population density** from 15 % to 10 % under the scheme. Decree-Law No 162 of 2019 extended this reduction to municipalities for which a state of emergency was decided following the occurrence of disasters, including municipalities affected by the earthquakes of central Italy.

#### ***4. Taxation of financial gains***

**Financial gains** are also subject to IRPEF, which, under the TUIR rules, fall within the two categories of **capital income** (that is to say, derived from capital investment: dividends, interest and similar income) and **miscellaneous income** (capital gains and losses arising from transactions in shares, corporate equity securities and other products).

As a general rule, **the tax rate on this income is 26 %** (this measure was last laid down by Decree-Law No 66 of 2014). Depending on the type of income to be taxed, withholding tax or substitute tax is applied.

Different treatment is given to revenues from so-called *black list* countries (with which there is no adequate exchange of tax information), which may be taxed at the ordinary IRPEF rate, or at *flat* rates in the cases provided for by law (if the lack of transparency is overcome by certain factual circumstances, for example if revenues derive from companies traded on regulated markets and are paid by financial intermediaries resident in Italy), or charged to shareholders by a tax transparency system.

By way of derogation from the abovementioned 26%, a preferential rate is applied for specific revenues. We would point out here that the proceeds from government bonds and equivalent securities and project bonds are taxed at 12.5%; the amount of the levy is 11.5 % for pension funds and supplementary pension schemes.

#### ***5. The optional regime for new residents***

The 2017 Budget Law No 232 of 2016 (paragraph 152) introduced a special scheme reserved for individuals transferring tax residence to Italy. Such persons **may benefit from a flat-rate substitute tax of EUR 100 thousand** for each tax period for which they are **charged on income generated abroad**.

It should be noted that it is not strictly a flat tax with a fixed rate, since it is a flat-rate substitute tax, but is generally included as a flat tax.

This flat-rate scheme may also be extended to one or more eligible family members, by means of a specific indication in the tax return relating to the tax period in which the family member transfers his/her tax residence to Italy or the subsequent tax period. In this case, **the substitute tax shall be EUR 25 thousand for each of the family members** to whom the effects of the same option are extended.

### *6. Flat tax for pensioners*

Established by the 2019 Budget Law and corrected by the Growth Decree, the **flat tax for pensioners** is a single tax of 7% which the Treasury applies to all income of **pensioners** who decide to transfer their residence from abroad to a region of southern Italy.

Flat taxing was a feature already present when the personal income tax was created, as far as proportional taxation of capital income was concerned. Over the past two decades, in addition to the schemes described above, it has also affected employee performance bonuses and other fees. The increasing extension of substitute taxation systems may lead to an uneven tax burden of different sources of income, negatively affecting the redistributive capacity of the tax, also considering the non-application of additional municipal and regional income taxes to such incomes. According to [Bankitalia](#), overall “flattening” reduces Irpef’s tax base by around one-tenth, amount that is largely due to financial income, business income and self-employment, especially after the proportional levy has been extended to those having revenues up to EUR 65,000.

### *Tax reform in economic planning documents*

The *National Recovery and Resilience Plan* (January 2021) identifies the **reform of the tax system** as one of the components needed to implement the measures of the NRRP. In response to the suggestions made by the European Council, it is therefore intended to review taxation in order to reduce the tax wedge on labour and shift the tax burden to other items and generally “from people to things”.

According to **the plan, the reform of the Irpef** aims to reduce **the effective rates on income from employment and self-employment**, in particular for low- and middle-income taxpayers in order to increase the employment rate, to reduce undeclared work and to boost the employment of women and young people. Such an intervention has been already launched with 2021 Budget Law.

It should be noted, in this connection, that a significant proportion of the additional resources of **React EU** (EUR 4 billion) helps to finance tax **benefits for employment in the Southern regions** and other employment measures (de-contributions for new recruiting of young people and women).

The Government also intends **to combat tax evasion and encourage tax compliance**, to review the environmental tax system so that it contributes to the goals of Agenda 2030, and to introduce the universal single allowance — with the first module — in 2021, with a view to making the Italian tax system more in line with the objectives set out in the *Country Specific Recommendations*. Finally, the process of digitising tax certifications — electronic invoices and electronic receipts — is developing, accompanied by *gamification* initiatives and measures aimed at providing services to taxpayers, which, on the one hand, facilitate voluntary *compliance* and, on the other hand, the ability of the tax administration to monitor.

In the context of **Mission 1, Digitalisation of the public administration** is therefore intended to ensure that public authorities are fully digitised from the point of view of revenue, together with the implementation of a national plan to accompany the transition to a *cashless community* through mechanisms to encourage the use of electronic means of payment for both consumers and merchants, linking it to the digital infrastructure for **tax certification**, electronic invoices and electronic charges (EUR 5.56 billion, of which 4,77 billion has already been allocated to the Italian cashless project and to ongoing initiatives by central authorities).

Specific action is to be taken to **reduce the tax disputes pending before the Corte di Cassazione (Supreme Court)**. As documented in the latest report on the opening of the judicial year, the Tax Chamber of the Corte di Cassazione alone had 52.540 cases pending in 2019. In order to address this problem, it is envisaged that, on an exceptional basis, honorary auxiliary magistrates may be assigned temporarily and on a contingent basis to the Tax chambers of the Court, and for two cycles, in order to eliminate the endemic backlog that has long overburdened these chambers and negatively affected the disposal performance of the entire Court.

With regard to **innovation and digitalisation of businesses** (Transition 4.0, EUR 18,8 billion), tax incentives included in the Plan - whose procedures for granting are simplified and sped up - are reserved to companies investing in capital, tangible and intangible assets necessary for a real digital transformation of production processes, as well as for research and development related to these investments.

With regard to **energy efficiency and renovation of buildings**, it is envisaged that a programme is put in place to improve and secure the public building stock, with particular reference to schools, public residential buildings, municipalities and courts, as well as a temporary incentive for energy and anti-seismic upgrading of private buildings, through a tax deduction of 110 % of the costs incurred for the measures (EUR 29.55 billion).

The **update to the DEF 2020** (economic and financial planning document) refers to **policies to combat tax fraud and tax evasion** and, in general, to **improve compliance**, in order to reduce the so-called **tax gap**— that is to say, the gap between taxes and contributions actually paid and the taxes and contributions that taxpayers would have had to pay under a system of perfect compliance with the tax and contribution obligations laid down in the legislation in force. This gap, as explained in more detail in the relevant paragraph, relates mainly to VAT, but also to the IRPEF on self-employment, business and social security contributions:

TAVOLA III.1: GAP DELLE ENTRATE TRIBUTARIE E CONTRIBUTIVE –DATI IN MILIONI DI EURO								
Tipologia di imposta	2013	2014	2015	2016	2017	2018*	Differenza 2018-17	Media** 2015-17
IRPEF lavoro dipendente (irregolare)	3.975	3.964	4.204	4.103	4.338	N.D.	N.D.	4.215
IRPEF lavoro autonomo e impresa	30.175	31.594	32.182	33.949	32.303	31.647	-656	32.811
Addizionali locali IRPEF (lavoro dipendente)	643	715	780	768	799	N.D.	N.D.	782
IRES	10.437	9.731	8.015	9.013	9.007	8.915	-91	8.678
IVA	34.918	36.776	35.887	35.458	36.801	33.322	-3.479	36.048
IRAP	8.383	8.063	5.485	4.992	5.226	5.069	-157	5.234
LOCAZIONI	760	754	1.275	767	729	693	-36	924
CANONE RAI	942	977	1.008	240	225	239	13	491
ACCISE sui prodotti energetici	1.169	1.306	1.430	1.611	2.077	1.490	-587	1.706
IMU	5.160	5.140	5.113	4.989	4.872	4.869	-3	4.991
TASI	N.D.	N.D.	N.D.	251	247	266	19	249
<b>Totale entrate tributarie (al netto del lavoro dipendente e della TASI)</b>	<b>91.944</b>	<b>94.340</b>	<b>90.394</b>	<b>91.018</b>	<b>91.239</b>	<b>86.244</b>	<b>-4.995</b>	<b>90.884</b>
<b>Totale entrate tributarie (al netto della TASI)</b>	<b>96.562</b>	<b>99.019</b>	<b>95.378</b>	<b>95.889</b>	<b>96.376</b>	<b>N.D.</b>	<b>N.D.</b>	<b>95.881</b>
Entrate contributive carico lavoratore dipendente	2.362	2.586	2.784	2.764	2.928	N.D.	N.D.	2.825
Entrate contributive carico datore di lavoro	7.659	8.428	8.516	8.119	8.804	N.D.	N.D.	8.480
<b>Totale entrate contributive</b>	<b>10.021</b>	<b>11.014</b>	<b>11.300</b>	<b>10.883</b>	<b>11.732</b>	<b>N.D.</b>	<b>N.D.</b>	<b>11.305</b>
<b>Totale entrate tributarie (al netto della TASI) e contributive</b>	<b>106.583</b>	<b>110.033</b>	<b>106.678</b>	<b>106.772</b>	<b>108.108</b>	<b>N.D.</b>	<b>N.D.</b>	<b>107.186</b>

\* Le stime relative al 2018 sono provvisorie in attesa della pubblicazione dei dati sull'Economia Non Osservata dell'Istat.

\*\* La media è calcolata per gli anni in cui le stime sono complete per tutte le imposte e contributi considerati (senza considerare la TASI).

\*\*\* Eventuali imprecisioni derivano dagli arrotondamenti.

Source: Report on the results achieved in the area of measures to combat tax evasion and contributions — Nedef 2020

The update of the DEF announced that a **fund** would be set up to cover the **revenue** actually generated by **the improvement of compliance**, also linked to the encouragement of the use of electronic means of payment, to be used to finance tax reform measures and reduce public debt; as mentioned above. This fund was established by 2021 Budget Law.

The plan shows that in 2020 tax revenue exceeded the forecast, thanks to measures to tackle the tax gap introduced in recent years (including electronic invoicing and electronic transmission of charges, combined with the digitalisation of payments). The increased revenue from better tax compliance is therefore set aside in the tax reform fund, which is bound to finance the various forms of the tax reform.

Funding for the budget for 2021-2023 should also have come from the **revision of some environmentally harmful subsidies** (including tax reliefs and exemptions) in order to stimulate the ecological transition by means of gradual, multiannual, proportionate and shared measures with *stakeholders*. However, this revision was **not** carried out in the Budget Law.

### ***The proposed amendments to the IRPEF: the measures under consideration by Parliament***

The Chamber of Deputies has approved a draft law (A.C. 687) to reorder and strengthen measures to **support dependent children** through the Single Allowance and the Single Due for Services.

The Chamber is also discussing a **Family Act** (A.C. 2561) for the support and enhancement of the family and the reorganisation of measures, including fiscal measures, to support the upbringing of dependent children.

The following legislative proposals are also being examined by the Chamber's VI Finance Committee:

- A.C. 1061 Crosetto and A.C. 1501 Gusmeroli on the introduction of a **substitute corporate income tax to be applied to incremental income**; the tax, which applies to all income and to persons already subject to the IRPEF and the IRES, would be taxed at a flat rate of 15 per cent, to be calculated solely on the additional part of income generated in relation to the previous year.
- A.C. 2075 Cabras and A.C. 2593 Gusmeroli on the establishment of **fiscal credit certificates** and the use of tax credits for payments between private individuals, with the aim of ensuring liquidity for the economic system by introducing new complementary payment measures between private individuals. In particular, A.C. 2075 provides for the establishment of transferable and negotiable fiscal credit certificates through which the taxpayer to whom they are allocated may offset payments to the government, while the A.C. 2593 allows, in order to make payments between individuals, the use and transfer of tax credits arising from the application of the provisions in force and represented by form F24.

### ***Other proposals to amend the IRPEF***

In its report on the [Italian economy and economic policy scenarios](#), **Confindustria Research Centre** presented a study setting out proposals for a comprehensive tax reform, meant to simplify tax rules and **lowering the tax burden, especially on paid labour**. The simplification of the system requires first and foremost a **revision of the tax expenditures**, which however needs to be carefully assessed, as their elimination/reduction would lead to **an increase in the overall tax levy**. Given that the current tight public budgetary constraints limit the magnitude of the reduction in the tax burden that can be achieved, but given the urgent need for measures to maximise the country's growth prospects, a viable option appears to be targeted actions that stimulate the development and efficiency of the system in complementary areas:

- A **merger of the IRPEF rates into the first bands**, thereby strengthening average incomes, especially those from employees, which are currently

penalised by a number of substitute schemes for other forms of income. Simulations carried out by CSC with the EUROMOD model show that replacing the nominal marginal rate currently in force on the second IRPEF band with the rate in the first band would result in tax savings of 56 % of IRPEF taxpayers and a cost to the State of around EUR 8 billion. This seems more reasonable than the alternatives discussed, such as: (I) the merger of the second and third IRPEF bands, which would increase the cost of an additional EUR 4 billion and lead to savings for less than a quarter of taxpayers; (II) the introduction of a fixed rate of 15 % up to EUR 55 thousand, which would cost EUR 80 billion;

- Targeted intervention on compensation of employees to increase net income also for workers with low incomes not paying taxes, with the introduction of a real negative tax, including transfers to those who are unable to work as employees;
- **Strengthening the current tax incentives on performance bonuses** to further stimulate the uptake of variable wage schemes and the achievement of productivity gains.

The Study Centre also carried out a detailed study on a possible reform of personal income **tax based on the introduction of a flat tax**. The proposal states that the extreme articulation and complexity of the current rules governing the IRPEF has so profoundly altered the original rationale of the tax that the introduction of a flat tax, as a result of its simplicity, would resolve a large part of the current inconsistencies. However, there are challenges for the implementation of such a reform. The results of the analysis according to Confindustria show that the shift to a quasi-flat tax is very **unlikely to be self-financed** by the proceeds of higher induced growth;

- This tax reform needs to be well defined and announced from the outset, but **necessarily implemented gradually**;
- In order to finance the loss of revenue, resources need to be recovered from a *serious spending review* and a **reduction in tax evasion**.

The Director of the **Revenue Agency** at the [hearing held at the VI Finance Committee of the Chamber of Deputies](#) presented a possible **reform of the procedure for determining and paying the IRPEF** by economic operators. The Director pointed out that the **cash taxation system could provide for** the possibility of paying taxes on a monthly basis on the basis of what is actually collected, net of what is spent on carrying out business, thus favouring investment in capital goods, the costs of which could be deducted from income, thereby also encouraging growth in the country. The features of the new cash taxation system could be as follows:

**A. total and immediate deductibility of capital investment** instead of current depreciation, the main accounting item still subject to the accrual criterion,

- and **the application of the cash criterion** also to all other items still subject to accrual criteria (some gains and losses; property income; some contingent assets and liabilities; maintenance costs; establishment costs and other multiannual expenditure; provisions for retirement and social security funds);
- B. the introduction of a system for the periodic monthly or quarterly payment of income tax linked to cash flow, making possible automatic set-off;
- C. the debiting of sums due to the taxpayer's current account by means of a payment in self-liquidation by the same taxpayer at the monthly or quarterly intervals laid down or by direct debit, of course, subject to his authorisation and without any obligation to use a dedicated current account;
- D. crediting the repayments or offsetting them against taxes due in the first period thereafter;
- E. the consequent **abolition of the payments on account in June and November and the withholding tax for professionals**; this system would make the payment of direct taxes more continuous throughout the year and reflect the situation of the taxpayer and the needs of the tax authorities.

**The Court of Auditors**, at [the hearing in the context of the fact-finding exercise prior to the examination of the National Reform Programme for 2020](#), stressed that the problems with the functioning of the IRPEF, in the light of a process of overall redesign of the system, would suggest that a possible **revision of the existing VAT rates** should not be excluded from the options, as well as some scenarios for reducing the number of rates (currently four), which could give rise to some administrative advantages. On this specific point, the NRP does not spell out any revision direction. However, this does not reduce the need to make a clear choice as to the role that the two main taxes of the tax system (IRPEF and VAT) have to play. In favour of **shifting the levy from the IRPEF to VAT**, it should be noted that, in the European comparison in Italy, the weight of the IRPEF in relation to GDP is among the highest and that of VAT is among the lowest; moreover, a revision of VAT could take place - by adjusting the rates accordingly - in the absence of unintended redistributive effects.

During a number of hearings held in the Senate, representatives of [trade unions](#) noted that the tax reform should include an increase in the specific deductions for compensation of employees and pensions, a reform of the IRPEF bands, the redefinition of the IRPEF rates and the tax bases, in full compliance with the principle of progressivity laid down in the Constitution, and, at the same time, this reform must provide for the adjustment of VAT, also with a view to ensuring greater liquidity, supporting the growth of domestic demand, which is essential for the revival of Italy's economy. In addition, the increase in deductions would have the positive effect of widening *the no-tax area*.

It is also proposed to defer contractual increases and to improve policies to combat tax evasion.

Also during the discussion on prioritising the use of the *Recovery Fund*, [trade union](#) representatives stressed the urgent need for a comprehensive tax reform that should increase progressivity and fairness, combat tax and tax evasion and provide for a review of incentives and subsidies, especially those that are environmentally harmful. It also [calls for](#) an increase in social security relief for the recruitment of young people and a reduction in the tax burden on income from retirement and work.

More generally, the following are also mentioned:

- A. The proposals for **extending deductions/deductions from the IRPEF** set out in the so-called [Colao Plan](#) (in particular for electronic payments and support for innovative *start-ups*);
- B. The 50 proposals from Confindustria and the National Council of Chartered Accountants for [a simpler tax burden](#) (in particular for amending the rules on **the relationship between payment of the IRPEF and the activity of tax substitutes**);
- C. The proposal, on an experimental basis and for a three-year period, **for the full exemption of the salary increases resulting from comparatively more representative collective bargaining**, submitted at [the hearing of 18 February in the Senate](#) by **Rete imprese Italia**.

## PROPERTY TAXATION

### *Property taxation: general lines*

In Italy, the **direct component of the levy on real property** - taxes on income and assets - affects the actual and imputed income and the asset value derived from the cadastral income, whereas the **indirect taxation component** is based on an economic transaction.

The level of taxation is different **depending on the nature of the property** (land, buildings for residential, industrial or commercial use) and **taxable persons** (on the one hand, businesses and professionals; on the other hand, persons who are not engaged in business activities or self-employment). In addition, in the Italian tax system, there is an important distinction between **main residence**, intended to meet housing needs and other real estate units owned for production, investment or kept available.

Since 2001, the main residence does not contribute to income formation for the purposes of the IRPEF and enjoys significant tax advantages, including the deductibility of part of the interest expense on mortgage loans contracted for the purchase, construction or renovation of the property. The tax treatment of the main residence has been the subject of numerous legislative measures in recent years. The 2020 Budget Law, in unifying IMU and TASI, maintained the tax exemption for the so-called first home of the taxpayer.

Taxation of **investment in real estate** is mixed: a proportional tax of 21 per cent (so-called flat rate, reduced to 10 % in some cases) can be applied to the rental of residential property; income from renting property for commercial use is subject to personal income tax (for contracts concluded in 2019 it is possible to opt for the flat scheme); income from unrented immovable property is excluded from income tax, with the exception of income from immovable property not rented in the same municipality of main residence, which is subject to personal income tax for a half of the income determined in the land register.

### *Property taxation in the context of local finance*

Many reasons have led to the view that property taxes are the most suitable sources of financing for local authorities. First of all, that consideration stems from the principle of benefit (who pays the tax may link the amount of the levy with the services provided by the local government), as well as from the limited risk of tax competition and the certainty of revenue. Moreover, the proximity of the tax base to the municipal government level entails specific advantages in terms of tax assessment and thus tax compliance.

On the other hand, the municipal revenue system presents a complex picture due to the overlapping of numerous legislative measures, including those of an urgent nature, which have amended the rules on local property taxes on several occasions. The legal framework is therefore characterised by transitional features, which were further confirmed by the provisions adopted in 2020.

Over the last year, local property taxation has undergone a **comprehensive overhaul**. During the 2020 measure (tax decree 2019 and 2020 budget law), the positive rules governing this form of levy, as well as other municipal taxes and fees, were amended; the involvement of municipalities in tax assessment and collection has been encouraged and, in addition, the system for collecting local government revenue has been reformed (see the relevant paragraph).

**The COVID-19 outbreak** has also affected, inter alia, the structure of municipal revenues. In an effort to safeguard the liquidity of the sectors most affected by the crisis, in particular the tourist and hospitality sector, the legislator has introduced local tax exemption measures that are valid while the emergency continues; at the same time, resources have been allocated to municipalities for the loss of revenue.

### *The IMU and the single fee*

The 2020 Budget Law (Article 1, paragraphs 738 to 783 of Law No 160 of 2019) reformed the structure of real property taxation, merging the two previous forms of levy - IMU and TASI - and bringing the relevant legislation together into a single text, relating to **the municipal tax on property (IMU)**.

These rules have essentially incorporated the proposals already put forward by the Parliament and which have come to the attention of the competent standing committees; This is the A.C. 1429, which was subsequently combined with A.C. 1904 and A.C. 1918.

With regard to the positive tax regime, **the basic rate is 0.86 %**, essentially the sum of the former IMU and TASI, and may be operated by municipalities under certain conditions. **Electronic payment arrangements** are introduced.

The 2020 Budget Law:

- granted a full deduction of the IMU on capital buildings since 2022, adjusting the deductions for the years 2020 and 2021 (60 % respectively).
- eliminated the possibility of having two main dwellings, one in the municipality of residence of each spouse;
- stated that the right of residence granted to the custodial parent is regarded as a right in rem for the purposes of the IMU alone;
- clarified the tax effects of changes in cadastral income (changes in cadastral income during the year, as a result of building work on the building, take effect from the date of completion of the works or, if earlier, from the date of use);
- specified the value of building areas (this is the market value on 1 January or from the adoption of urban planning instruments in the event of a change during the year);
- it allowed the municipalities to entrust, until the expiry of the contract, the management of IMU to the entities entrusted, on 31 December 2019, with the management of the old IMU or TASI.

The same 2020 Budget Law introduced, since 2021, the **so-called single licence fee**, licence fee or advertising display fee, bringing together in one form of levy revenue relating to the occupation of public areas and the distribution of

advertisements, and the single concession fee for employment in the markets, which, since 2021, replaces TOSAP, COSAP and, in the case of temporary occupation only, the TARI.

With reference to the IMU, in addition to the transitional measures linked to the COVID-19 outbreak, **2021 Budget Law reduced IMU to a half**, for a single real estate unit, provided that it is not leased or given free of charge, held in Italy and owned by **persons not resident in the territory of the State**, who are entitled to a pension acquired under an international agreement with Italy. For such buildings, the **TARI** or the equivalent rate is applied at the rate of **two thirds** (paragraphs 48 to 49).

Similar to the IMU in its structure and key features, **the IVIE**, established by Decree-Law No 201 of 2011, is imposed **on properties located abroad**.

### ***Renovation of buildings and superbonuses***

Tax exemptions for buildings have a key role to play in the policy debate on property taxation, with particular reference to the IRPEF deductions for renovation and energy renovation of buildings.

These measures have been extended from year to year, with specific adjustments to the measure and the limitations of these benefits.

2021 Budget Law extends to **2021** deductions for expenditure on energy efficiency, building renovation, purchase of furniture and large household appliances, as well as recovery / restoration of the external facades of buildings. The provision also increases from EUR 10,000 to EUR 16,000 the total amount on which the planned deduction for the purchase of furniture and household appliances is to be calculated. The measure lays down that the deduction provided for such measures is also granted for replacing the existing emergency power plant by emergency “last generation” gas generators, and extends by one year (to the end of 2021) the tax advantage relating to the refurbishment of uncovered areas of private residential property (the advantage consists of the deduction from gross tax of 36 % of the expenditure incurred, up to the limit of EUR 5,000 per year and, therefore, up to the maximum deductible amount).

In addition to these measures, Decree-Law No 34 of 2020 (known as the Rilancio Decree) regulated the so-called **superbonus**, which consists of the possibility of deducting 110 % of expenditure relating to specific energy efficiency measures and anti-seismic measures in buildings.

2021 Budget Law also extends the application of the abovementioned deduction **until 30<sup>th</sup> of June 2022** (compared to the previous deadline of 31 December 2021), to be distributed among beneficiaries in five equal annual instalments, and four equal annual instalments for expenditures incurred in 2022. It is therefore provided that the provisions on the option to sell or discount instead of tax deductions (Article 121 of Decree-Law No 34 of 19 May 2020)

also apply to persons who, in 2022, bear the costs of operations covered by the *superbonus* rules.

Therefore, until 31 December 2021, the following deductions are provided for:

- tax deduction (from IRPEF and IRES) of **110 %** for **energy efficiency measures, earthquake-bonuses, photovoltaic and recharging systems for electric vehicles** with the characteristics regulated by Decree-Law No 34 of 2020 (from 1 July 2020 until **30 June 2022**);
- tax deduction (from the IRPEF and the IRES) of **65 %** for documented expenditure relating to **energy renovation of buildings** (*ecobonus*);
- tax deduction for expenditure incurred from 1 January 2020 to 31 December 2020 for the purchase and installation of **micro-cogenerators** to replace existing plants;
- tax deduction of **50 %** for expenditure incurred on the purchase and installation of **winter air conditioning installations** with plants equipped with heat generators using biomass fuels;
- tax deduction of **50 %**, up to a maximum of EUR 96,000, for **building renovation** works;
- tax deduction of **50 per cent** for the **purchase of high energy class furniture and household appliances**;
- tax deduction of **36%** of expenditure incurred, **up to a limit of EUR 5,000** per year for measures **to** renovate uncovered areas of private residential property;
- tax deduction of **90%** of the documented expenditure incurred in 2020 relating to measures, including only cleaning or external painting, aimed at **recovering or restoring the façade of buildings** located in specific areas (*facade bonus*);
- tax deduction of **expenditure on anti-seismic measures** on buildings located in highly hazardous seismic areas and in zone 3, to varying degrees (**up to 85%**) on account of the building - single dwelling or common parts of the building - and the type of measures, with particular reference to the reduction of seismic risk (so-called *earthquake bonus*, where the measures are not driven by the *superbonus* rules).

Further details of the tax advantages for building renovation and energy efficiency measures can be found in the [Revenue Agency's Guide](#), as well as the factsheets on the webpage "Tax [deductions for building renovation and energy efficiency](#)" of the Chamber of Deputies Documentation Portal and the study carried out by the Chamber of Deputies' Research Service in collaboration with CRESME (Centre for Economic and Social Market Research for Buildings and Territories) [The energy recovery and upgrading of the building heritage: An estimate of the impact of the incentive measures](#).

The **Tax Register Commission** has recently carried out an in-depth investigation into property taxation, for which see the [outcome document](#).

### *The waste tax*

The **waste tax (TARI)** is the levy intended to finance - by covering all costs - the service of collecting and disposing of waste and is payable by any person owning any premises or open areas capable of producing waste. As a transitional measure, the surface area of the building units eligible for TARI is the floor area of the premises and areas capable of producing municipal and similar waste.

Municipalities which have put in place systems for measuring the quantity of waste delivered to the public service may, instead of the TARI, which is of a fiscal nature, charge a fee.

TARI was introduced by Law No 147 of 27 December 2013 to replace the previous municipal tax on waste and services (Tares), which was in force for 2013 alone and which, in turn, had replaced all previous levies on waste management, both of financial and fiscal nature (TARSU, TIA1, TIA2). The 2020 Budget Law, in reregulating local property taxation, didn't change TARI and its discipline.

The **tax rate** is determined in accordance with Presidential Decree No 158 of 1999 (**standard method**); as a transitional measure, the municipality may adjust the rate to the normal average quantity and quality of waste produced per unit of area, in relation to the uses and types of activities carried out and the cost of the waste service. The rate for each homogeneous category or sub-category shall be determined by the municipality by multiplying the cost of the service per unit of taxable area determined for the following year by one or more coefficients of quantitative and qualitative productivity of waste.

By the deadline for the approval of the budget estimate, the municipal council must approve the rates in accordance with the **financial plan of the municipal waste management service** drawn up by the entity providing the service.

Decree-Law No 124 of 2019 extended until different regulations laid down by the Regulatory Authority for energy, networks and the environment (ARERA) this method of measuring the tax rate on the basis of the medium-ordinary criterion (instead of the actual quantity of waste generated). The measure provided for access to preferential rate conditions for the provision of an integrated municipal and similar waste management service for household users in poor economic and social conditions.

It should be noted that the 2018 Budget Law (Law No 205 of 2017, paragraph 527) **entrusted** ARERA with the task of regulating the waste sector, with regard to improving the service to users, homogeneity between the areas of the country, assessing cost-quality ratios and adapting infrastructure.

The new **tariff method** [for the integrated waste management service was therefore defined by Decision 443/2019/R/ref of 31 October 2019](#). In particular, Article 2 defines the following tariff components of the integrated municipal waste management service:

- a) **operating costs**, consisting of the sum of operational costs for the management of the activities of sweeping and washing, collection and transport of mixed municipal waste, treatment and disposal, collection and

transport of sorted fractions, treatment and recovery, and incentives to improve performance;

- b) **costs of using capital**; calculated as the sum of the depreciation of fixed assets, the provisions eligible for recognition of the tariff, the return on the recognised net invested capital and the remuneration of the fixed assets in progress;
- c) **adjustment component relating to** the costs of 2018 and 2019.

The tariff components shall be determined in accordance with the tariff method set out in Annex A to the Decision.

A first regulatory period is foreseen from 1 April 2020 to 31 December 2023 (experimental throughout 2020). For municipalities below 5 thousand inhabitants, the method has been applied since January 2021.

Finally, we would point out that the Bank of Italy has recently analysed ([\*The local waste levy in Italy: Benefit tax or \(hidden\) property tax?\*](#)) the characteristics of TARI in terms of both efficiency and equity, using a simulation of the Bank of Italy's household balance sheet survey data. The Institute notes that TARI does not adequately discriminate between households on the basis of waste generation and has specific redistributive effects to the detriment of households with lower incomes; a reconfiguration of the levy in the form of tariffs would therefore bring benefits not only in terms of efficiency - for incentives for a more responsible use of public and environmental resources - but also in terms of fairness, as it would remove the regression profiles of the current rates.

### ***Revaluation of land***

Over time, a number of rules (most recently the 2021 Budget Law, Law No 178 of 2020) have extended the right **to reassess for tax purposes** the values of shareholdings held in unlisted companies and **land** (both agricultural and building land), on the basis of an expert estimate, making the recalculated value subject to substitute tax in instalments.

That arrangement, introduced by the 2002 Budget Law, makes it possible to recalculate those values for the purposes of determining capital gains and losses subject to income tax.

The 2021 Budget Law, with reference to the value of the rates for determining the substitute tax referred **to above, provided for a single rate of 11%** on the revaluation of shareholdings in unlisted companies and land.

### ***Indirect taxes on transfers***

The taxation of **property transfers** has also been subject to changes in recent years, both in order to rationalise the measure and the way in which it is applied and to combat the crisis in the real estate sector through taxation.

The rationalisation objective has been pursued (Article 26 of Decree-Law No 104 of 2013, which amended Article 10 of Legislative Decree No 23 of 2011

on the so-called municipal federalism) by amending, as from 1 January 2014, the amount of registration, mortgage and cadastral taxes on real estate transfers: today, a single rate of 9% applies to all transfers of immovable property with the exception of a non-luxury main dwelling, which is taxed at a reduced rate of 2%. The amount of each registration, mortgage and cadastral fee has been increased from EUR 168 to EUR 200 in all cases where it is fixed.

### *Emergency measures to combat the spread of COVID-19*

The emergency measures adopted in the course of the health emergency introduced general and widespread measures **to suspend taxes and contributions**. Many municipalities spontaneously postponed the deadlines for the payments of revenue, including property, due to them, which are expressly authorised by the general tax rules.

However, in addition to these generalised measures and voluntary initiatives by local and regional authorities, emergency measures have provided for specific **exemptions from local taxes** in order to protect the sectors most affected by the crisis. In particular:

- as a result of the Rilancio and Agosto decree-laws, **IMU 2020 is not due** on the buildings of tourism and accommodation companies (beach establishments, spas, hotels and tourist buildings, buildings used for fair events or events). The Agosto Decree exempted cinemas, theatres, discotheques and balloons from the second tranche IMU 2020. Finally, for buildings intended for cinematographic performances, theatres and concert and entertainment halls, IMU is not due for the years 2021 and 2022; the Ristoro Decree (Decree-Law No 137 of 2020) further broadened the scope of this exemption;
- by the August Decree, companies in the restaurant and beverage sector were **exempted from payment of the tax and rent for the occupation of public spaces and areas** from 1 May to 31 December 2020;
- the Rilancio Decree introduced a **tax credit for the monthly rent** of buildings for non-residential use, in favour of certain entities engaged in business, art or professional activities, who have suffered a reduction in turnover or payments due to the economic and health emergency caused by COVID-19; for the tourism and hospitality sector, it is paid regardless of turnover. The advantage is granted, albeit to a lesser extent, to retailers. The Ristori Decree extended the measure for October, November and December 2020 to companies whose activities, due to the evolution of the epidemiological situation, were suspended by the Prime Ministerial Decree of 24 October 2020.

For companies that started operations in 2019 and some municipalities affected by catastrophic events (with a state of emergency still in place at the date of the declaration of the COVID-19 state of emergency), there is no constraint on the reduction of turnover or fees. The tax credit may be

transferred to the lessor instead of payment of the corresponding part of the rent, with the consent of the lessor.

### ***Issues for consideration: the reform of the cadastre***

For a long time, major international organisations (OECD, European Commission and International Monetary Fund) have drawn up tax policy recommendations based on a redesign of the composition of the levy, at the same level of overall revenue, so as to safeguard budgetary balances. The most growth-friendly *tax shift* would consist of **gradually replacing capital and labour taxes with indirect taxes on consumption and wealth**.

Currently, the most relevant **property taxes** are IMU, the stamp duty on financial products and similar taxes on assets held abroad. In 2018, the total revenue from these taxes amounted to **around EUR 23 billion** (of which approximately EUR 18,7 billion was due to IMU and 4,5 to the stamp duty on financial products).

**Transfer of wealth** is also subject to levies. These include: inheritance and gift taxes; registration, mortgage and cadastral taxes in the event of the transfer of immovable property; financial transaction tax on shares and equity derivatives.

Since the onset of the international economic crisis in 2007, the European institutions have highlighted the appreciation of policies aimed at reducing labour taxation in favour of increasing indirect and capital taxation (including real estate), believing that this shift can increase employment and investment. With particular reference to Italy, the EU institutions have long suggested revising the tax base for real estate taxes in order to align the cadastral value with market values.

Researchers from the [International Monetary Fund](#) (Andrle M. et al, 2018) also noted that in Italy the tax system is characterised by a high tax wedge, a relatively narrow tax base and a significant tax backlog. A strategy of devaluation - shifting from taxation of inputs to taxation on consumption and ownership - is considered to significantly lower the tax wedge, reduce the tax gap (both in terms of spontaneous tax compliance and tax policy) and improve tax collection, rationalise tax expenditures, raise revenues and reintroduce modern capital taxation. To this end, the International Monetary Fund's working paper considers it necessary to introduce a modern form of levy on immovable property and, in particular, on the 'first home', i.e. the principal residence of the taxpayer, to this end **by updating the cadastral values**.

The recent *Country Specific Recommendations* to the Member States (EU Council, 2019) have highlighted two specific elements: first of all, as we have seen, the absence of a recurrent property tax on the first home; on the other hand, the lack of updating of the cadastral values of land and assets, which constitute the basis for calculating the tax on immovable property. **Recommendation 1 of 2019**, in line with previous years, calls on Italy to shift the tax burden away from

labour, in particular by reducing tax expenditures and **reforming the unupdated cadastral values**.

A recent (unfinished) reform attempt was introduced by **Law No 23 of 11 March 2014** (so-called fiscal delegation), which aimed - through the reform of the land register (Article 2) - to correct the inequality of current annuities, which was exacerbated by the introduction of a new multiplier for the calculation of the experimental municipal tax (IMU). Among the principles and criteria for determining the cadastral value, the delegation indicated, in particular, the definition of the **territorial scope of the market** and the **determination of the asset value** using the **square metre** as unit of size instead of the number of compartments. It was intended to ensure the involvement of municipalities in the rent-review process, also with a view to taxing buildings not yet recorded.

That reform took place at **unchanged levels of revenue**, taking into account the socio-economic conditions and the size and composition of the household, as reflected in the ISEE, to be noted also by means of the information provided by the taxpayer, for which special measures of early protection were provided for in relation to the award of new pensions, including in the form of administrative self-protection. There was also a mechanism for Parliament to monitor the rents review process.

It provided for a preferential tax regime for the securing of buildings, in particular for works to adapt buildings to the legislation on safety, energy and architectural renovation.

At the same time, the law aimed at updating equitable transfers to municipalities and aimed at redefining the competences of the census committees, in particular by entrusting them with the task of validating the statistical functions (published in order to ensure the transparency of the estimation process) used to determine the asset values and annuities, as well as introducing deflatory procedures for litigation.

However, the delegation was **implemented only with regard to the composition, powers and functioning of the census committees**, by means of Legislative Decree No 198 of 2014, published in the Official Gazette of 13 January 2015.

The Ministerial Decree of 27 May 2015, published in the Official Gazette of 4 June 2015, identified criteria for the designation by the National Association of Italian Municipalities, of the members of the local and central census committees. For more details, please refer to the recent [hearing](#) of the Director of the Revenue Agency in the context of the above-mentioned fact-finding survey on property taxation.

## **IRES AND CORPORATE TAXATION**

In Italy, the type of direct taxation levied on business activities depends on the nature of the taxable person (natural persons or legal persons) and their organisation (partnerships or capital companies). In general, self-employed persons and sole proprietorships are subject to IRPEF, while legal persons (with the notable exception of partnerships) are subject to IRES, the Italian corporate income tax.

As in the case of the IRPEF, recent changes have also intended to reduce the tax burden on enterprises, by leaving the fundamental structure of the tax unchanged, while affecting rates and the complex system of tax deductions (i.e. the rules for determining tax bases) and tax credits.

Apart from income taxation, the regional tax on productive activities (IRAP, introduced by Legislative Decree No 446 of 15 December 1997) plays a key role, both in terms of its function in financing the national health system and its impact on the so-called tax wedge.

### ***Direct taxation on the enterprises: IRES***

In short, the IRES (corporate income tax, disciplined by the Consolidated Income Tax Act – TUIR, Presidential Decree No 917 of 22 December 1986) is a personal and proportional tax at a rate of 24% (measure in force since 2017, as a result of the 2016 Stability Law; previously, the rate was 27.5%). Taxable persons are mutual insurance companies, cooperative societies and capital companies established in Italy, public bodies, private bodies and trusts established in Italy and any type of company, whether or not having legal personality, not established in Italy.

Taxable amount calculation depends on each taxable person: as a general rule, capital companies and resident institutions use business income as the basis of assessment, taking into account tax changes established by TUIR, either decreasing or increasing (including deductible costs and expenses). In case of non-resident legal persons, income generated in the territory of the State is taxable when derived from commercial activities and provided that there is a permanent establishment in Italy. Specific rules apply to non-commercial entities; for them, the taxable amount is determined on the basis of rules in force for natural persons.

### ***Permanent establishment and taxable amount***

The economic impact and turnover of international e-commerce, and the provision of telematic services without physical location, have required a revision of the tax base and, in particular, of the concept of “permanent establishment”, in order to adapt it to the new socio-economic situation. At the same time, these requirements urged international institutions to seek specific

agreements to standardise tax bases and, therefore, to limit tax competition between countries and avoid the creation of genuine tax havens.

Indeed, it has been [pointed out](#) by several parties that the lack of coordination of tax policies has led to intense tax competition between countries at global level, which has led to a progressive reduction in corporate profit tax levels in recent decades. This decrease in the level of taxation has led to revenue losses that go beyond the ones resulting from tax evasion.

With regard to the tax base, the national tax debate focused mainly on the concept of “permanent establishment”, which is a necessary precondition for taxation of income in Italy. The 2018 Budget Law (Law No 205 of 2017) made significant changes to its regulation and to its determination criteria, redefining the traditional categories of physical and personal permanent establishment, in order to release the link between the physical presence of an activity in the State and the applicability of tax legislation. In particular, the possibility of finding a permanent establishment in Italy has been introduced even in the case of significant and continuous economic presence in the territory of the State built in such a way that it does not have a physical strength in the territory of the State (new Article 162 (2) (f-bis) TUIR).

On the international front, it is worth mentioning the legislative initiative to create a Common Consolidated Corporate Tax Base in the EU, consisting of two legislative proposals: a proposal for a Directive on a Common Corporate Tax Base (CCTB) and a proposal for a Directive on a Common Consolidated Corporate Tax Base (CCCTB).

The aim of the European proposal is to establish a single set of rules to calculate the corporate tax base in the EU internal market, to reduce administrative costs and improve legal certainty for businesses, by standardising the calculation of their taxable profits in all EU countries. This would allow Member States to fight aggressive tax planning. These initiatives do not aim at harmonising tax rates or possible tax credits in the EU, which remain in the sovereign law of the Member States.

The draft CCTB Directive - still under discussion in the absence of unanimous agreement - proposes a very broad definition of tax base, that makes all revenues taxable, with the exception of those explicitly exempted. Exempted revenues include profits of permanent establishments of a company situated in the State in which the company has its head office, and income from dividends or from the sale of shares held in a company outside the group. In addition, the draft rules propose the deduction from taxable revenues of business expenses and other costs.

In this regard, the Director of Finance Department of the Ministry of Economic Affairs and Finance, during the [hearing held before the Finance Standing Committee of the Chamber of Deputies](#), pointed out that the European Commission could use Article 116 of the EU Treaty, which presupposes the existence of distortions of competition in the internal market due to disparities

in national rules. The Treaty provides for the Commission to have the power to interact with Member States whose national legislation distorts the conditions of competition in the internal market, causing a distortion which must be eliminated.

Considering tax inequality from the point of view of an infringement of the fair competition rule would allow decisions to be taken no longer by unanimity, but by qualified majority. In this way, any obstructive positions taken by some Member States would no longer be able to block decisions. This would be an innovative approach, which, however, could be limited in its difficult application, essentially linked to the need to objectively assess and measure the distortion of the single market.

### ***Rates***

With regard to rates, as previously anticipated, the 2016 Stability Law lowered the IRES measure for all firms from 27.5% to 24%, with effect from 2017.

The 2019 Budget Law (paragraphs 28-34) introduced the so-called mini-IRES, i.e. the application of a reduced rate of 15% to part of the income of enterprises increasing employment levels and making new investments. This measure was then replaced (Article 2, Decree-Law No 34 of 2019) by a progressive reduction in the IRES rate on the part of the company's income linked to the reuse of profits, adjusted over time to reach 20% from 2023 (also never in force).

At last, the 2020 Budget Law restored, from 2019, the application of the so-called fiscal mechanism for aid to economic growth (ACE), abolishing the abovementioned incentive measures for undertakings, linked to the reinvestment of profits, put in place in 2019.

The ACE, established for the first time by Decree-Law No 201 of 2011, and whose rules have been revised several times in the following years, consists of a deduction of part of equity increases, or rather a deduction of an amount corresponding to the notional return on new equity. Therefore, the advantage is granted to enterprises whose equity is increased by contributions in cash and by reserves, in order to provide an incentive for capitalisation. To calculate the deductible amount, components which have contributed positively (contributions, retained earnings) and negatively (capital reductions with allocation to members, acquisition of shareholdings in controlled companies, purchases of companies or branches of business) to the capital are summed up. This is multiplied by a percentage rate, which was set at 1.3% by the 2020 Budget Law.

The 2020 Budget Law increased IRES to 27.5% (instead of the ordinary measure of 24%) on income coming from activities under public concession schemes, in the tax years 2019, 2020 and 2021.

In this connection, we would point out that, in its judgment No 10 of 2015, the Constitutional Court declared the constitutional illegitimacy of the so-called Robin Hood Tax (i.e. the supplement to the IRES rate for companies operating in the oil sector, the electricity sector and the transport and distribution of natural gas, introduced by Article 81 of Decree-Law No 112 of 2008), without retroactive effect; the rule has been criticised from the point of view of reasonableness and proportionality.

We would also point out that the 2019 Budget Law repealed the optional corporate income tax (IRI) system introduced by the 2017 Budget Law and governed by Article 55-bis of TUIR. This mechanism would have allowed sole proprietorships, collective and limited partnerships under the ordinary accounting system, and limited liability companies with limited ownership, to apply a proportional and separate taxation of their business income at the IRES rate. The entry into force of the scheme was deferred until 1 January 2018. The repeal of IRI is established with effect from 2018. Therefore, in the light of the postponement of entry into force and subsequent repeal, the scheme has, in essence, never been effective.

### ***The so-called web tax***

As anticipated, the advent of the digital economy has created major tax challenges. In the globalised world economy, tax policies have faced high mobility of taxpayers and capital, a high number of cross-border transactions and the internationalisation of financial structures, with significant risks of tax evasion and avoidance, as well as commercial policies aimed at exploiting the legislative and tax gap between the laws of the various countries.

Specific attention is given to the tax regime for the supply of goods and services without a physical or legal presence (e.g. e-commerce), as well as to cases where consumers access digital services free of charge, in return for the mere payment of their personal data (e.g. Google, Facebook, etc.)

Following input from the European Council, in March 2018 the European Commission presented a legislative proposal to develop a temporary tax on revenues from digital services (digital services tax), pending the implementation of a long-term structural solution to be agreed at the OECD. The temporary tax would apply to revenues from activities where users play a central role in value creation and which are not adequately covered by current tax rules (e.g. revenues from the sale of targeted online advertising, from digital intermediation activities that allow users to interact and which facilitate the sale of goods and services between them and from the sale of data generated by information provided by users). Member states where users are located would collect these tax revenues.

Work on digital services tax has been ongoing in the European institutions since March 2018. Following a debate at the Economic and Financial Affairs Council in March 2019 and the lack of unanimous agreement on the proposal, the Council decided to pursue a two-track approach:

- the Council and the Member States will continue to work together to reach agreement on a global solution at OECD/G20 level by 2020;
- in the event of failure of international negotiations or failure to reach an agreement by the end of 2020, the Council may revert to discussing an EU approach. The President of the European Commission, von der Leyen, has recently expressed the view that, in the absence of a common global solution by the end of the year, the EU will have to act alone, also to avoid the risk of fragmentation in the regulation of the Member States.

A first Italian attempt to tax digital services was made with the Digital Transaction Tax, governed by the 2018 Budget Law. It should have applied to digital transactions relating to electronically supplied services, at a rate of 3 per cent applied to the value of the individual transaction, exclusive of VAT.

The 2019 Budget Law (Law No 145 of 2018) repealed the previous rules, introducing a tax on digital services, to be applied to entities providing such services with a total revenue of EUR 750 million or more, of which at least EUR 5,5 million was generated in Italy for the provision of digital services. The tax is levied on revenues at a rate of 3 per cent and is paid within the month following each quarter.

The 2020 Budget Law (Law No 160 of 2019) amended the rules governing the digital services tax, inter alia, in order to clarify how the tax should apply to affected payments, the returns and the frequency of the levy, but above all to release the application of the tax - as far as possible - from the adoption of implementing measures. The Revenue Agency's decision on the identification number, which is necessary to identify taxable persons who are not established in the Italian State, is currently being issued.

Article 2 of Decree-Law No 3 of 2021 **extended the deadline for payment of the digital services tax from 16 February 2021 to 6 March 2021 and the deadline for submitting the relevant tax return from 31 March 2021 to 30 April 2021.**

In this connection, we would point out [that the Revenue Agency's decision of 15 January 2021](#) lays **down the operational rules** for the first application of the framework, in particular by identifying:

- **the objective scope** of the tax introduced, highlighting the excluded digital services;
- the way in which the **tax base** and the digital services tax are determined;
- the **connecting factors with the territory of the State**;
- **payment of the tax**;
- **the declaration requirements**;

- **the essential requirements** for compliance;
- **the accounting obligations** of taxable persons;
- **the joint and several liability** of residents for the fulfilment by non-resident taxable persons of their obligations to pay the digital services tax;
- **reimbursements** for overpayments.

In this context, Decree-Law No 50 of 2017 introduced, for non-resident companies belonging to multinational groups with revenues exceeding EUR 1 billion and supplying goods and services in Italy for an amount of more than 50 million, using resident companies or permanent establishments of non-resident companies, the possibility of having access to an enhanced cooperation procedure for the definition of tax debts due in relation to any permanent establishment.

In the Tax Package of 15 July 2020, the Commission submitted a proposal for a Directive (DAC 7) to introduce an automatic exchange of information between Member States' tax administrations for profits generated by sellers on digital platforms and to strengthen administrative cooperation by clarifying existing legislation.

### *Non-profit sector*

Law No 106 of 6 June 2016 conferred on the Government a delegation to reform the **so-called third sector** (non-profit associations and companies), the social enterprise and the regulation of the universal civil service.

Legislative Decree No 111 of 3 July 2017 - Third Sector Code was issued, subsequently supplemented and corrected by Legislative Decree No 105 of 2018, which inter alia reorganises and comprehensively revises special rules and other provisions in force relating to entities in the non-profit area, including the tax rules applicable to these bodies.

The Decree also regulates the solidarity certificates of non-profit entities (which may be issued by all entities registered in the National Single Register, including entities with commercial activity) and other forms of social finance (including peer-to-peer lending).

In short, Title X of the Code (Articles 79 to 89) governs the tax treatment of entities in the third sector. Essentially, entities in the third sector - other than social enterprises - follow the tax system provided for in Title X of the Code, which contains specific support measures. The TUIR rules on income tax are also applicable to the same entities, insofar as they are compatible. An optional tax regime is introduced for determining the corporate income of non-commercial entities, that is to say those carrying out, exclusively or predominantly, activities in the general interest, based on profitability ratios. Rules identify activities characterised as being non-commercial. In particular, such activities shall be presumed to be non-commercial if the revenues do not

exceed by more than 10 per cent the related costs for each tax period, and for no more than two consecutive tax periods. A tax credit is granted to those who make donations to entities in the third non-commercial sector. Provisions conferring additional benefits, not provided for in the previous tax rules, are also introduced; a single set of rules of deductions and tax credits is introduced in favour of those making liberal payments to entities in the third non-commercial sector and social cooperatives.

With regard to voluntary organisations and social promotion associations, a number of activities are listed which, for income tax purposes, are considered non-commercial, if they are carried out without the use of professionally organised means for the purposes of market competitiveness. Volunteer organisations also benefit from the deductibility of 35 % of payments made to them; some acts (such as constitution and those relating to the performance of the activities) regarding voluntary organisations are exempt from registration duties. Income from immovable property used exclusively for the pursuit of non-commercial activities is exempt from IRES.

The tax system for social promotion associations, registered in the special section of the National Single Register of the third sector, is regulated, largely in continuity with previous rules, but with some updating and rationalisation measures. Voluntary organisations and associations for social promotion are allowed to apply a flat-rate scheme, with simplified accounting, for their commercial activities, provided that they do not exceed the limit on revenue of EUR 130,000 in the previous tax period. Specific rules have been introduced concerning the obligations to keep accounting records for the activities of third sector entities.

By Legislative Decree No 112 of 3 July 2017 (amended by Legislative Decree No 95 of 2018), the rules governing social enterprises were revised: among other things, a social enterprise is allowed to distribute dividends to its members (within certain limits) and the range of activities which constitute social utility for legal purposes are extended, with the grant of tax incentives.

**2021 Budget Law** provides for the deduction of 50% of profits, in favour of non-commercial entities, as from 1 January 2021, provided that they carry out, exclusively or principally, one or more activities of general interest in pursuit of civic, solidarity and utility objectives (paragraphs 44-47).

### ***Superdepreciation, overdepreciation and tax credits***

As stated above, over the years, the taxation of the production sector has been progressively adjusted - without prejudice to the fundamental features of direct taxes - by introducing numerous advantages in the form of deductions and tax credits. This system of benefits has reduced the tax burden on business, on one hand, and - through targeted interventions in specific sectors - has supported economic growth.

In particular, the aim was pursued by the so-called superdepreciation (superammortamento) and overdepreciation (iperammortamento) measures introduced by the 2016 Stability Law and the 2017 Budget Law respectively, and subsequently extended until 2019-2020. Those advantages enabled companies to increase, for tax purposes, the costs of acquiring certain capital goods (and, therefore, their deductibility from direct taxes), in particular tangible and intangible assets linked to investment and technological innovation.

Instead of extending these measures, the 2020 Budget Law replaced them with a new tax credit for expenditure in new capital goods. It covers all businesses and, with regard to certain investments, also professionals. The credit is granted at a rate that is different according to the type of goods being invested. It covers investment in new capital goods, including intangible assets for technological transformation according to the Industry 4.0 model. The Rilancio Decree (Decree-Law No 34 of 2020), issued as part of the measures to deal with the economic and health emergency, extended from 30 June to 31 December 2020 the final date for the effectiveness of the so-called superdepreciation (that lets enterprises increase by 30% the cost of acquisition of new equipment).

With regard to tax credits, we would point out here that the 2020 Budget Law (Law No 160 of 2019) extended to 2020 a number of tax credits already in existence, and comprehensively regulated the tax credit for investments in research and development, in ecological transition, in technological innovation 4.0 and in other innovative activities, to support the competitiveness of enterprises.

The 2020 Budget Law extended to 2020 the benefit of the tax credit for training expenditure in the field of technology 4.0, with a revised annual limit. The benefit, established by the 2017 Budget Law and amended by the 2019 Budget Law, provides for a tax credit of 50% of the expenditure incurred by small enterprises for this purpose, and 40% for the expenditure of medium-sized enterprises.

New tax credits were introduced by emergency decrees issued to deal with COVID-19 (including credit for the sanitisation of working environments), while strengthening existing measures (increase in the tax credit rate for investments in research and development activities in the Mezzogiorno regions, as a result of the Rilancio Decree, Decree-Law No 34 of 2020).

It should be borne in mind here that, like the IRPEF tax advantages, the complex sectoral advantages relating to the production sector are fully covered by the so-called tax exemptions, that is to say, that set of tax benefits - stratified over time - which require the attention of the legislator with a view to reforming the tax system, simplification and rationalisation.

### ***Innovative start-ups and SMEs***

Start-ups benefit from specific tax advantages.

Innovative start-ups, governed by Decree-Law No 179 of 2012, are newly created enterprises engaged in the development, production and marketing of innovative products or services with high technological value. This type of enterprise, which must meet specific requirements, is granted preferential measures, both in the start-up and development phases. In addition to the necessary requirements, the firm must meet at least one of the alternative requirements identifying the innovative character of the activity: it must incur research and development costs amounting to at least 15% of the greater of the total cost and value of production; employ, as employees or collaborators, highly qualified personnel in certain alternative measures; it must be the owner or depositor or licensee of at least one industrial property right, or the holder of the rights in an original computer program.

Innovative start-ups are not subject to the annual fee payable to the Chambers of Commerce and, as clarified by Circular 16/E of the Revenue Agency of 11 June 2014, to the secretarial fees and stamp duty normally due for compliance with the Business Register (Article 26 of Decree-Law No 179 of 2012).

Innovative start-ups are also covered by a framework derogating from the law on letterbox and systematic loss-making companies. Therefore, if they obtain inappropriate revenues or are at a systematic tax loss, they are not subject to the tax penalties laid down for so-called letterbox companies, such as the imputation of a minimum income and a minimum taxable amount for IRAP purposes, the limited use of the VAT credit, the application of the 10.5% IRES surcharge (referred to in Article 26 of Decree-Law No 179 of 2012). They are also exempt from the requirement to affix a conformity stamp by offsetting VAT claims (Article 4 of Decree-Law No 3 of 2015).

Their directors and employees are exempt from taxation and contributions, in respect of the part of their labour income resulting from the allocation of shares, participating financial instruments or rights of those undertakings (Article 27 of Decree Law No 179 of 2012).

Structural tax incentives are granted for investment in venture capital of innovative start-ups from natural and legal persons: an IRPEF deduction of 30% of the investment, up to a maximum of EUR 1 million, is provided for natural persons. For legal persons, the incentive consists of a deduction from the IRES tax base of 30% of the investment, up to a maximum of EUR 1,8 million. From 2017 onwards, the use of the incentive is conditional on continued participation in the innovative start-up for a minimum of three years. With regard to incentives of a financial nature, we would like to recall the possibility for these categories of firms to raise risk capital in an innovative way, in particular through online portals (crowdfunding); this way of raising capital, initially reserved for start-ups and innovative SMEs, was extended to all SMEs (Stability Law 2017).

Decree-Law No 3 of 2015 introduced into the law the definition of innovative small and medium-sized enterprises, designed to benefit from certain

simplifications, advantages and incentives reserved for innovative start-ups. These provisions apply only to innovative SMEs which are not more than 7 years old, subject to the conditions and limits laid down in European State aid rules.

In order to facilitate investment in start-ups, the 2017 Budget Law provided for the possibility for listed companies to acquire at least 20% of the tax losses of investee start-up companies, subject to specific conditions.

The Rilancio Decree-Law introduced *de minimis* benefits to invest in innovative start-ups. As an alternative to ordinary tax advantages on investments by natural persons, a deduction of 50% of investments in the share capital of one or more innovative start-ups is available only for companies registered in the special section of the business register at the time of the investment. This deduction is granted under the *de minimis* State aid framework laid down in Regulation (EU) No 1407/2013, under specific conditions and within the maximum invested limit of EUR 200,000 during three tax period. The same *de minimis* tax relief scheme is also applicable to innovative SMEs.

### ***Taxation of the financial sector***

The legislator has intervened on several occasions on the taxation of banks and insurance companies, also to coordinate their regulation with the new rules on crises and reforms in this sector.

The 2016 Stability Law (Law No 208 of 2015) provided that financial intermediaries and the Italian National Bank (Banca d'Italia) are required to apply an additional 3.5% to the standard IRES rate. However, investment fund management companies and securities brokerage companies are excluded.

The 2019 Budget Law increased the advance payment on insurance tax from 59% to 85% for 2019, to 90% for 2020 and finally set at 100 % as from 2021.

The 2020 Budget Law deferred the deductibility rates, for IRES and IRAP purposes, laid down in certain legal provisions and already postponed by the 2019 Budget Law. In particular, deduction of the 12% share of the stock of loan write-downs and losses for credit and financial institutions extends to the current tax period on 31 December 2022 and the three following; for the current tax period as at 31 December 2028, the deduction of 10% of the impairment of receivables and other financial assets resulting from the recognition of the loss allowance for expected losses, and to the tax period running on 31 December 2025 and the four following the deduction of 5% of the stock of negative amortisation items relating to the value of goodwill and other intangible assets.

### ***IRAP***

The regional tax on productive activities (IRAP), governed by Legislative Decree No 446 of 15 December 1997, is payable in respect of the usual exercise of an independently organised activity, aimed at the production or exchange of goods or the provision of services. Taxable persons are traders and self-

employed persons, whether acting individually or jointly, private non-commercial bodies and public authorities and bodies.

It is a secondary tax, that is to say a tax introduced and regulated by the law of the State, and whose revenue is attributed to regions, which must therefore exercise their fiscal autonomy within limits laid down by State law.

Revenue from IRAP, according to national law, is destined to finance the National Health Service.

IRAP is applied to the value of net production, resulting from the activity carried out in the territory of the region or autonomous province, calculated differently according to the type of entity and the activities performed.

The tax shall be determined by applying to the net production value rates laid down by law. In particular, the standard rate is 3.9%. It is borne by banking and financial firms by 4.65% and, in the case of insurance companies, by 5.9%.

The Regions and Autonomous Provinces may, by their own law, vary the rates according to sectors of activity and categories of taxable persons. The IRAP rules were supplemented by Legislative Decree No 68 of 6 May 2011 on provincial and regional tax federalism, which lays down rules applicable only to ordinary regions. They may reduce the rates to zero and provide deductions from the tax base in accordance with EU law and the case-law of the Court of Justice of the European Union.

The special status Regions and the Autonomous Provinces of Trento and Bolzano are also allowed to lower rates to zero, by virtue of specific rules contained in their special statutes or in their implementing provisions.

The main legislative measures aimed at reducing the tax wedge include measures that affected IRAP deductions, in particular labour cost components.

The 2015 Stability Law (Law No 190 of 2014) provided for full deductibility from IRAP of the cost of permanent employees. The measure applies to IRAP taxable persons, with the exception of non-commercial bodies, public authorities and bodies with regard to institutional activities. That deduction was then extended by the 2016 Stability Law, albeit subject to specific limits, also to the costs incurred in recruiting seasonal workers, subject to certain conditions linked, inter alia, to the duration of the relationship.

With reference to the “autonomous organization”, which is a precondition for the application of the IRAP to self-employed workers, the 2015 Stability Law made it clear that there is no independent organisation for doctors who have signed specific agreements with hospitals, for the pursuit of the profession, if they receive more than 75% of their total income for their activities in those establishments. Anyway, the amount of income generated and expenses directly linked to the activity carried out are irrelevant for the existence of an independent organisation. However, it can be established if there are elements that exceed the standard and parameters laid down in agreements with the National Health Service.

The 2016 Stability Law exempted from IRAP entities operating in the agricultural sector, small-scale fishing cooperatives and their consortia, and cooperatives and their consortia which primarily provide services in the forestry sector, including in the interests of third parties, as from 2016.

The same measure increased the amounts deductible by IRAP in favour of some smaller entities, reinforcing the deductions in favour of general partnerships and limited partnerships (and treated as such) and natural persons engaged in commercial activities, as well as natural persons and civil-law partnerships operating in the arts and professions.

## EXCISE DUTIES AND VAT

Indirect taxes include **value added tax (VAT)** and **excise duties** on alcohol, tobacco and energy. The common VAT system is generally applicable to goods and services that are bought and sold for use or consumption in the EU. Excise duties are levied on the sale or use of specific products. EU legislative activities are aimed at coordinating and harmonising VAT law and harmonising duties on alcohol, tobacco and energy with the aim of ensuring the proper functioning of the internal market.

### *Excise duties*

As regards **excise duties**, it should be noted that they have been **harmonised at European level for many years**. Their structure and measure **differ according to the type of product affected by each tax** (in general, excise duties are levied on **alcohol, tobacco and energy products**, and the [European Parliament document](#) identifies its characteristics and differences). Generally speaking, the structure of excise duties and minimum rates are set by EU rules and it remains open to Member States to increase the rate.

Excise duties have been increased over time, including for emergency purposes: the increase in excise duty rates has immediate financial effects for the tax authorities, not least because they affect goods whose demand is not closely linked to price (such as petrol and tobacco).

As regards revenue from **excise duties** ([Blu Book 2019](#) of the Customs and Monopolies Agency), the value of the contribution to the tax authorities for **2019** was approximately EUR **34.2 billion**; **excise duties on energy products account for 92.95 %**, while **excise duties on alcohol account for 4%**. It should also be noted that over the last three years **total demand for tobacco has fallen** by around 1,2 million kg (-1.59 % compared with 2017), driven by the fall in cigarette consumption (-6.80 % in volume since 2017).

In this connection, we would point out that the 2020 Budget Law increased excise duties on manufactured tobacco (paragraph 659). In particular, **the amount of the minimum excise duty and the minimum tax burden** (the latter applicable to cigarettes) on **manufactured tobacco has been increased**, as well as the amount of **the basic rate** on those products. **The basic rates on manufactured tobacco** - the component used to calculate the global excise duty, which in turn forms part of the overall excise duty - **have also been increased** and the levy on snuff or mastic tobacco has been unified.

**Tax Decree 2019** (Decree-Law No 124 of 2019) intervened on many aspects of excise legislation.

The new rules aim at preventing fraud and tax evasion in **the fuel distribution chain and** in the field of **excise duties on energy products**, inter

alia by limiting the use of the declaration of intent for non-application of VAT; changes have been made to the requirements regarding the reliability and integrity of the parties involved in the distribution chain; tax warehouses above a certain threshold were obliged to adopt the computerised system INFOIL for the management of energy products. Provision has also been made for telematic means of transmission of the customs accompanying document for the transport of fuels and the quantities of electricity and natural gas, when they are transported and delivered to final consumers.

We would point out, however, that the so-called Rilancio Decree **deferred the validity of a number of provisions on excise duty introduced by the aforementioned Decree** because of the economic and health emergency caused by COVID-19.

With regard to excise duties on **alcohol**, the **2019 Budget Law** (Law No 145 of 2018) introduced specific tax relief **on beer**. In particular, **the excise duty on beer has been reduced** from EUR 3 per hectolitre **to EUR 2.99** per hectolitre (paragraph 689) from 1 January 2019.

**2021 Budget Law** carried out a **comprehensive review of the consumption tax on substitutes for smoking products**, and also introduced changes in the area of **smoke-free inhalation tobacco**. The consumption tax for non-combustion inhalation products consisting of liquid substances, whether or not containing nicotine, is reviewed and increased. In addition, distance selling of non-combustion inhalation products consisting of liquid substances carried out in Italy is permitted, in accordance with procedures laid down by the Customs and Monopolies Agency.

Further **anti-fraud provisions** were introduced by the **2021 Budget Law**, with particular reference to obligations of operators of energy products depots that are subject to excise duty; to the extension of the INFOIL system to all commercial warehouses of energy products, with a storage capacity of not less than 3.000 cubic metres, by the deadline of 31 December 2021; to the establishment of an automatic mechanism for blocking letters of intent, in the event of the identification of false exporters; to rules on operating licences for tax warehouses of energy products.

### *Value added tax — VAT*

Value added tax (VAT) is also a **harmonised tax** at European level (article 113 of the Treaty on the Functioning of the European Union - TFEU), governed by the so-called VAT Directive (Directive 2006/112/EC), which established the **common system of value added tax**.

Pursuant to Article 1 of DPR 633 of 1972, VAT Decree, value added tax applies to supplies of goods and services carried out in the territory of the State in the exercise of a business or in the exercise of arts and professions and to imports by any person.

With regard to **VAT rates**, we would point out that, with effect from 1 October 2013, **the standard rate** has been recalculated at **22%** (2013 budget law). The legislation also provides for **two reduced rates**: a rate of **10%** and one at **5%**, which was introduced by the 2016 Stability Law (paragraphs 960-963). Finally, until the introduction of the definitive system provided for in the VAT Directive, **the super-reduced rate of 4 %** remains in force, provided that the rate was in force on 1 January 1991 and that its application meets well-defined reasons of social interest (Article 110, VAT Directive).

Among the most recent amendments in the field of VAT there is article [123 of Decree-Law No 34 of 2020](#) (known as: **Rilancio Decree**), which definitively **removes** the so-called **safeguard clauses** which, with effect from 1 January 2021, provide for increases in the rates of value added tax and excise duty on certain fuel products.

Paragraphs 2 and 3 of the **2020 Budget Law** (Law No 160 of 2019) **provided for full sterilisation for 2020 and partial sterilisation from 2021**. For the following years, the reduced VAT was expected to be increased from 10 to 12 % and a normal VAT increase of 3 percentage points for 2021 (to 25 %) and 1.5 percentage points (up to 26.5 %) from 2022 onwards, and the increase in net revenue expected from the increase in excise duties on fuel was also adjusted.

These safeguard clauses to protect public finance balances were introduced by the **2015 Stability Law**, in order to avoid the reduction of fiscal benefits and deductions provided for by previous measures. It increased the standard and reduced VAT rates by 3.5 and 3 percentage points respectively and excise duties on petrol and diesel to an extent that would result in higher revenues of not less than EUR 700 million. These increases, originally planned from 2016 onwards, were postponed and adjusted over time, until full sterilisation by the aforementioned Rilancio Decree.

### ***VAT evasion***

It should be noted that, according to the estimates presented in the [Report on Tax Evasion](#), annexed to **the NADEF 2020**, **VAT is the most evaded tax in Italy**: in the 2013-2018 range, the average **VAT gap in value is 35.5 billion**; the lowest value of around EUR 33 billion was reached in 2018.

According to a study carried out by the European Commission ([Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report](#)), in absolute terms in 2017 **Italy at European level** continues to have **the largest VAT shortfall** (around EUR 33.6 billion) in all EU Member States, followed by Germany (EUR 25 billion) and the United Kingdom (EUR 19 billion) (**total EU evasion: EUR 137 billion**).

We would also point out that the extent of this evasion appears to be **largely underestimated** by Italian taxpayers. A research carried out by The European House - Ambrosetti ([Cashless Revolution: The progress made by Italy and what remains to be done Report 2020](#)) shows that **7 out of 10 Italians underestimate the volume of VAT evasion**, not knowing how Italy stands in relation to the other 27 countries of the

European Union. Less than one third of the sample (31.7 %) provided the correct answer that Italy is the worst country in the EU for absolute volumes of VAT evasion.

### ***The proposed changes to VAT***

In a recent [question to the Chamber](#) of Deputies, the Prime Minister proposed a possible **intervention on VAT rates**, in relation to the possibility of introducing measures to support consumers. In Germany, VAT has recently been cut from 19 % to 16 % and from 7 % to 5 % for a period of six months from 1 July to 31 December 2020, with an estimated cost of EUR 20 billion for the State's coffers.

### ***Electronic invoicing and electronic transmission***

Article [1 \(209\) of Law No 244 of 2007](#) introduced the obligation to send invoices electronically to the Public Administrations, while the subsequent Decree of the Ministry of Economic Affairs and Finance No 55 of 3 April, 2013 implemented **the obligation of electronic invoicing between public authorities and suppliers** as of 6 June 2014 for ministries, tax agencies and national social security bodies, and 31 March 2015 for other public administrations, including local authorities.

Since **1 January 2017**, the Ministry of Economic Affairs and Finance has made the **Interchange System for the transmission and receipt of electronic invoices** available to taxable persons for VAT purposes. From the same date, persons supplying goods and services (businesses, craftsmen and professionals) may submit electronically to the Revenue Agency data on the daily fees for supplies of goods and services, in lieu of registration obligations.

The [2018 Budget Law](#) provided for **the obligation to issue only electronic invoices** via the Interchange System **from 1 January 2019** both in the case of the supply of goods or services between two VAT operators (B2B transactions, i.e. *Business to Business*) and from an Iva trader to a final consumer (B2C transactions, i.e. *Business to Consumer transactions*). Those who are covered by the preferential **flat-rate scheme** or who continue to apply the tax advantage scheme are **exempt**.

Mandatory electronic invoicing through the Interchange System enables the tax authorities to acquire in real time the information contained in invoices issued and received between traders, enabling the tax authorities to carry out **timely and automatic checks on the consistency between the VAT declared and the VAT paid**, and to boost digitalisation and administrative simplification.

A Report on the effects of the introduction of e-invoicing, presented by the Revenue Agency during **the hearing at the VI Committee on Finance of the Chamber of Deputies on 24 June 2020**, shows that e-invoicing has a positive impact of around **EUR 3,5 billion**. In particular, the increase in VAT revenue from voluntary payments by taxpayers (**not attributable to the business cycle**) was estimated at around **EUR**

**2 billion.** This was confirmed in the [NADEF 2020](#), which shows that in 2019 there was an increase in VAT revenue of more than **EUR 2.9 billion.**

In order to promote better traceability, the gradual replacement of tax receipts started on 1 July 2019. In **2020, tax receipts have been replaced by a commercial document**, which is issued exclusively using an **electronic recorder (RT) or a web procedure** made available free of charge by the Revenue Agency. Persons engaged in retail trade and similar activities, for which the issue of an invoice is not mandatory (if not requested by the customer), must certify the charges by **storing and transmitting them electronically** to the Revenue Agency. This obligation has been triggered from 1 July 2019 for economic operators with a turnover of more than EUR 400,000 and from 1 January 2020 for others, with penalties being applied from 1 July, then postponed to **1 January 2021** in view of the difficulties linked to the Coronavirus emergency.

As of **31 July 2020, around 1.200.000 VAT operators** reported to have started the process of **electronic storage and transmission of tax receipts**, of which approximately 990,000 were using RT and approximately 530,000 through the use of the Revenue Agency's *web* procedure (around 320,000 operators use both methods). As regards the charges arising from the use of vending machines, there are currently around 30.000 operators, who transmit these data for around 700,000 dispensers. 659 operators, on the other hand, transmit charges for the supply of petrol and diesel.

### ***Proposals to amend e-invoicing***

In view of the results obtained, the **Court of Auditors** ([Court of Auditors' Memory on the Economic and Financial Document 2020](#)) **suggests that the legislator consider whether it would be appropriate to go beyond the optional nature of electronic invoicing for taxpayers using the so-called flat-rate scheme**, with the necessary approval of the European Commission. The Court underlines that it is very important for the proper functioning of the system as a whole to acquire the full knowledge of the exchanges between all economic operators; moreover, the reasons for making compliance only optional (Article 1 (692) of Law No 160/2019) can now be considered to have been exceeded, given the level of operational simplification achieved by the current technologies available on the market.

### ***Simplification of tax compliance***

Over the years, a number of legislative measures have been adopted to simplify taxation:

- Decree-Law No 70 of 13 May 2011 introduced tax simplifications concerning, inter alia, the abolition, for employees and pensioners, of the obligation to report annually data on deductions for dependent family members, if not varied, and the abolition of notifications to the Revenue

Agency in connection with building renovations benefiting from income tax deduction;

- In the following year, Decree-Law of 2 March 2012 introduced provisions aimed both at facilitating **the rectification of tax filing mistakes and omissions** and at **reducing administrative burdens** for citizens and businesses;
- Decree-Law No 69 of 21 June 2013 lays down provisions aimed at simplifying electronic communications to the Revenue Agency for persons registered for VAT, **abolishing the obligation to submit a monthly form 770**, extending tax assistance to the taxpayer and facilitating the taxpayer in the context of the debt collection procedure.

Pursuant to Law No 23 of 11 March 2014 (**delegation law for tax reform**), the following legislative decrees were issued:

- Legislative Decree No 175 of 2014, which **introduced, inter alia, the pre-completed tax return, raised the** limit for exemption from the inheritance declaration and removed the obligation to submit ad hoc forms in order to join certain special tax schemes;
- legislative Decree No 127 of 2015 **on the electronic transmission of invoices or data relating to VAT transactions** and the monitoring of supplies of goods through vending machines;
- Legislative Decree No 128 of 2015 **on legal certainty** in relations between the tax authorities and taxpayers and, in particular, inter alia, with the express rules on abuse of rights and the introduction of the cooperative compliance regime;
- Legislative Decree No 156 of 2015, which introduced measures to revise the rules governing **disputes** and tax disputes;
- Legislative Decree No 159 of 2015, which aims to simplify and rationalise the rules on **collection**.

More recently, **Decree-Law No 34 of 30 April 2019** laid down **further rules to simplify tax compliance, including:**

- simplifications of formal checks of tax returns and deadline for submitting electronic returns;
- unit payment simplifications;
- simplification in the area of summary fiscal reliability indices;
- information obligations of taxpayers applying the flat-rate scheme;
- simplification of declarations of intent relating to the application of value added tax.

It should also be noted that Article 153 of the Rilancio Decree shifted the deadlines laid down for the experimental start of drawing **up draft VAT registers and notifications [of periodic VAT](#)** assessments by the Revenue

Agency, providing for **an extension to 2021**, thus aligning the date with the launch of **the pre-completed VAT** return.

The [report on the results achieved with regard to measures to combat tax and tax evasion](#) provides for the rationalisation of tax obligations, including actions to combat tax evasion by means of a **comprehensive plan based on the simplification of rules and obligations** and a new and more effective alliance between taxpayers and the financial administration.

To this end, the agreement between the Minister for Economic Affairs and Finance and the Director of the Revenue Agency defining the **services of the Revenue Agency** for the period from 1 January to 31 December 2020 (Government [Act: \(194\)](#)) recalls the use of **digital services** and **payments from remote channels**; the extension of the new PA **payment form** to other payment documents; promotion of the area of the website reserved for intermediaries; maintaining a high standard of the level of digital services, assessed in terms of citizens' and intermediaries' satisfaction with the full range of *online* services.

### ***Tax simplification proposals***

Despite the numerous simplification measures that have taken place over the years, Confindustria at a recent [hearing at the Sixth Committee on Finance of the Chamber of Deputies](#) stated that according to the World Bank's *Doing Business* report, Italian enterprises need an average of 30 working days (238 hours) to meet their tax **obligations correctly. The average value for OECD countries is only 20 working days (160 hours)**, with best-performer countries that manage to contain this indicator on just over 7 days (around 50 hours). According to Confindustria, therefore, our tax system takes 10 days more than the systems of our competitors. In order to reduce this tax complexity, Confindustria and the Consiglio Nazionale dei Commercialisti presented a comprehensive joint document ([companies and accountants for a simpler tax system](#)) containing **numerous proposals for tax simplification**.

We would also [like to recall the fact-finding survey on the process of simplifying the tax system](#) and the relationship between taxpayers and tax authorities at the Senate's Finance Committee.

## TAX COLLECTION AND COMPLIANCE

Tax-roll collection is the procedure for the recovery of sums of money that citizens owe to public bodies. They may relate both to tax and other debts (e.g. fines). This type of procedure was originally envisaged solely for the collection of income taxes and is governed by Presidential Decree No 602 of 29 September 1973.

Article 17 of Legislative Decree No 46 of 26 February 1999 specifies that the **enforced collection of State revenue, including other than income taxes, and of other public bodies, including social security bodies, excluding economic revenue**, is carried out through the **tax-roll**. Fees, penalties and interests are recorded in tax lists and are divided into ordinary and extraordinary tax lists (extraordinary lists are drawn up when there is a serious danger to collection).

Article 29 of Decree-Law No 78 of 2010, in order to reduce the period for enforced recovery of tax claims, provided that **documents issued by the Tax revenue agency - Agenzia delle Entrate from 1 October 2011** (relating to the tax period in force on 31/12/2007 and subsequent years) are **enforceable**; once the deadline for submitting a tax appeal has expired, they **legitimate the enforcement of tax collection** ( so called ‘enforceable assessment’).

As soon as they are issued, the **documents take the form of tax orders**, both an **order** to comply and an **enforceable** instrument (enabling enforcement to be initiated), and once the **tax assessment notice has been notified**, the taxpayer must (within the prescribed period) pay the sums due, without any need to wait for the further payment order to be notified.

### *Tax collection results*

In 2019, the **overall annual collection result was EUR 19,9 billion** (+ 3.4 % compared to EUR 19,2 billion in 2018), of which **EUR 5,1 billion comes from enforced collection, EUR 12,6 billion from direct payments and EUR 2,13 billion from initiatives relating to the promotion of compliance**.

In the area of taxes administered by the Revenue Agency, the normal recovery from control activities amounts to EUR 16,8 billion, an increase of 4.1 % on the previous year (EUR 16,2 billion). Of this, EUR 11,7 billion comes from direct payments (sums paid as a result of documents issued by the Agency or agreements to defer litigation), an increase of 4 % compared to 2018; EUR 2,1 billion is the result of compliance activities, which has also been achieved thanks to more than 2,1 million *alerts* sent by the Agency; on the other hand, the recovery resulting from the ordinary tax rolls for which the Revenue Agency is responsible amounts to EUR 3 billion.

However, the Court of Auditors ([Report on the General Accounts of the State 2019, Court of Auditors, 24 June 2020](#)) points out that in 2019 there was a **high concentration of tax investigation carried out on smaller amounts**: out of a **total of 508.101 investigations**, including automated partial ones, **259.133 controls** (51%) resulted in a higher tax recovery **between EUR 0 and EUR 1,549**.

### *Amounts to be collected (so-called warehouse)*

In a recent [hearing at the VI Committee on Finance](#) of the Chamber of Deputies, the Director of the Revenue Agency highlighted the **steady growth of debt rolls that are still to be collected**. As of 30 June 2020, the value of the remaining accounting burden, entrusted by the various creditor bodies to the collection agent since 1 January 2000, **amounted to approximately EUR 987 billion**, of which EUR 405.3 billion, or approximately 41% of the total, **seems difficult to recover due to taxpayers conditions** (EUR 152.7 billion are owed by bankrupt persons, EUR 129.2 billion come from deceased persons and businesses that have ceased, EUR 123.4 billion from non-taxable persons, on the basis of data in the tax register); EUR 440.3 billion, or about 45% of the total amount, relates to enforcements already carried out, but that have not allowed full recovery of debt; a further EUR 50.2 billion (5% of the remaining total) is suspended for self-protection measures issued by the creditor institutions, on the basis of court rulings, or because the remaining amounts are part of the shares covered by tax amnesties.

### *Measures to promote compliance*

A number of the provisions of the 2019 Tax Decree and the 2020 Budget Law intend to extend and make more timely the information available to the Revenue Agency and the Tax Police (Guardia di Finanza) both for carrying **out controls** and to **strengthen preventive action and improve cooperation** with the taxpayer, by making greater use of persuasive instruments (communications to promote **compliance**).

In particular, paragraphs 681 to 686 of the 2020 Budget Law provide that, for the purposes of **analysing the risk of evasion** carried out using information contained in the financial reports file held by the tax register, the Revenue Agency and the Guardia di Finanza, **technologies, processing and interconnections with other databases at their disposal may be used** to identify risk criteria useful for detecting positions to be analysed, and to promote spontaneous compliance, subject to specific conditions for the protection of personal data. Cases in which the exercise of specific rights in relation to the protection of personal data is limited include actual prejudice to activities of preventing and combating tax evasion.

The innovative point of view lies, in short, in the possibility for the Revenue Agency to **switch from deductive logic to inductive logic** in control activity by means of **data mining** (extraction of useful information from large amounts of data using automatic or semi-automatic methods) carried out upstream of the determination of risk criteria.

The Parliamentary Budget Office ([Budget Policy Report 2020 \(UPB\)](#)) notes that the effectiveness of these rules, that should provide an additional revenue of EUR 460 million, depends crucially on:

- the ability of the Revenue Agency to exploit its information potential, i.e. to have the **appropriate statistical and IT expertise and professional human resources**;

- the effective **resolution of problems related to the processing of personal data.**

With regard to the contrast between rules aimed at combating tax evasion and citizens' *privacy*, we would point out that in the European Union 16 out of 27 Member States **publish the names of tax evaders and those who owe state money (*name and shame*)**. This practice concerns not only European countries, but also 23 US states and other countries in the world, such as Australia, Mexico, Nigeria and Uganda. Moreover, in **France** (where the publication of the name of the tax payer is lawful) with the *2020 Loi des finances*, the tax and customs authorities **can collect and process by automated means, i.e. by means of algorithms, the information published by users in their social network profiles** and use it in order to combat tax and customs offences, in order to select the persons to be checked. The information disseminated publicly by the users themselves, that is pooled and shared, will be included in the tax *scanner*, thus excluding private conversations within the social networks and, in general, everything that is accessible only through *passwords*.

The [opinion adopted by the VI Finance](#) Committee on the National Reform Programme for 2020 points out the need to ensure an appropriate **mechanism for regular monitoring and reporting on measures set up to combat tax evasion**, in accordance with scientifically reliable rules and analysis tools, also with an information perspective to Parliament, in order to evaluate any legislative measures aimed at removing bureaucratic burdens and intrusive controls that have no real effectiveness in preventing and punishing evasive and fraudulent conducts.

### *Tax amnesties*

With regard to tax amnesty measures (so-called **tax peace**), it should be noted that in recent years various measures (including emergency measures) have made it possible to define certain types of tax claims, as well as disputes pending before the tax authorities, in a way that is facilitated; in essence, taxpayers were asked to pay the sums due, also by instalments, in exchange of a substantial discount on the sums claimed (generally without paying penalties and interests) and with specific tax and/or penal positive effects.

In particular, both the **2019 Budget** Law (Law No 145 of 2018) and **Decree-Law No 119 of 2018** introduced a number of overall measures to allow the **closure of slopes with tax authorities** through a variety of instruments:

- **facilitated settlement of tax rolls**, documents in the tax inspection procedure and pending disputes;
- **automatic cancellation (write-off)** of some low-value debts;
- **regularisation of formal irregularities** in previous tax periods;
- **facilitated closure of debts of natural persons in economic difficulties**;
- **facilitated completion of traditional own resources of the European Union (customs tariffs) and VAT collected on importation**, entrusted to the collection agent **from 1 January 2000 to 31 December 2017**.

Subsequently, Decree Law No 34 of 2020 let taxpayers, who had lost the benefits of the preferential allowances (for failing, insufficiently/ late paying of instalments due in 2019), request further **deferral of payments** (pursuant to Article 19 of Presidential Decree No 602/1973) for the sums still due.

We would point out that in 2019, with regard to increased revenue **from the preferential definition** of tax debts and fiscal peace measures, the result was **broadly the same as in 2018** with regard to the recovery resulting from extraordinary measures amounting to **EUR 3 billion**. Of these, EUR 2,1 billion (-19 % compared to 2018) derive from the allowances relating to the Revenue Agency, and EUR 900 million from the preferential definition contained in Articles 1, 2, 6 and 7 of Decree-Law No 119 of 2018 (so called tax roll *scrapping*).

[The latest collection data can be found in the Ministry of finance bulletin on January-August 2020.](#) In summary, in the period **January-August 2020**, the **tax revenue** established on the basis of jurisdiction amounted to EUR **271.566** million, representing a reduction of EUR 16.692 million compared to the same period of the previous year (- **5.8 %**).

The revenue from tax **assessment and control** activities **amounted to EUR 5,564 million (-EUR 2,369 million, or -29.9 %)**, of which: EUR 2,544 million (-EUR 1,627 million, -39.0 %) came from direct taxes and EUR 3,020 million (- EUR 742 million, -19.7 %) from indirect taxes.

### ***Tax collection by local authorities***

Substantial innovations concerned (paragraphs 784 et seq. of the 2020 Budget Law) **tax collection of local authorities**, with particular reference to the instruments for the exercise of powers of taxation.

In detail, these rules have provided, also for local authorities, the **enforceable tax assessment**, along the lines of what is already provided for national tax revenue, which makes it possible to issue a single declaratory document meeting the requirements of the enforcement order. It operates, with effect from 1 January 2020, with regard to the sums pending on that date.

In addition, the 2020 Budget Law:

- has intervened on rules governing the direct payment of local authority revenue, providing that all sums received by local authorities in any way accrue directly to the local authority's treasury;
- has systematically regulated the access to data by bodies and entities entrusted with the collection service;
- has revised the procedure for appointing tax collection officials and personnel;
- in the absence of regulation by local bodies, it has specifically regulated the deferral of payment of the sums due to them;
- has set up a special section in the register of collection agents, which must include the persons carrying out the functions and support activities prior to the establishment and collection of local revenue;

- has provided that the transcripts, registrations and cancellations of attachments and mortgages requested by the person who issued the order or enforcement act are free of charge.

From a different point of view, in application of the principle of subsidiarity and in order to strengthen the means of combating tax evasion, the legislator has over time provided for greater **involvement of local and regional authorities in the process of assessment and collection**. Tax Decree No 2019 (Decree Law No 124 of 2019) extended to 2021 the incentive provided to municipalities that participate in tax assessment activity, which is 100% of the tax collected, following qualified reports sent by those authorities.

### *Measures taken to address the emergency*

In the course of 2020, in order to deal with the Coronavirus emergency, measures were taken **to suspend payments and the power of assessment** of the tax authorities. These measures, initially introduced for the so-called red area, were gradually extended to the entire national territory by Decree-Law No 18, 23 and 34 of 2020.

Finally, [Decree-Law No 129 of 20 October 2020](#) laying down [urgent provisions on recovery of taxes](#) (now merged in [Decree Law No 125/2020](#)) **extended to 31 December 2020 the suspension of the notification of new payment orders, the payment of previously sent notices and other acts** of the collection agent. At the same time, **it also extends to 31 December the period valid for instalments of sums due by taxpayers**, also providing that instalment benefit is lost with the non-payment of 10 instalments, instead of 5. It also postpones **by 12 months the deadline for to notify tax notices and rolls**.

These measures, as stated in the [NADEF 2020](#), have the effect that, unlike in previous years, the estimated revenue expected for 2020 is significantly **lower than the one realised in the previous year by around EUR 6.8 billion**.

### *Proposals for a reform on tax collection and compliance*

In the [Commission's report on the identification of priorities for the use of the Recovery Fund](#), comments made by the VI Finance Committee ([meeting of 29 September 2020](#)) were taken into account. In particular, a tax reform was indicated, with particular reference to **improving compliance** and **revising the collection system**, along the following lines of action:

- (a) innovation in the structure of tax agencies, with a view to simplifying procedures and reducing the time taken to pay refunds and contributions, responding, in the delivery of services, to indicators linked to simplification, processing times and user satisfaction, also with a view to fully implementing a “single allowance” as a first step in a comprehensive reform of family policies;
- (b) innovation and digitalisation, strengthening services for citizens, encouraging the use of electronic means of payment (*smart POS*) embedded

in electronic cash registers, aimed at simplifying traders' obligations, including for the purposes of bank traceability and speeding up tax refunds, and to strengthen tools in support of control activities, by making better use of the available information resources (*network analysis, machine learning and data inspection*);

- (c) facilitating the gradual transition, for natural persons and partnerships under simplified accounting arrangements, and subsequently for all self-employed workers, to a **cash tax system** that goes beyond the advance payments mechanism of the IRPEF, simplifying and improving tax compliance and encouraging investment in capital goods, the costs of which could be deducted from income, thereby also encouraging growth in the country;
- (d) identification - in order to ensure greater competitiveness of the production system and encourage the capitalisation of firms through leverage - of additional and more powerful forms of tax incentives for savings, albeit limited in time, in line with what is already provided for in the individual savings plans;
- (e) **reform of the collection system**, providing for a stable annual financial sustainment to ensure the budgetary balance of the Revenue Agency and by **gradually eliminating the backlog** (including by cancelling bad debts), to enable the collection agent to adjust the recovery action, in accordance with the principles of effectiveness and efficiency;
- (f) **reform of the tax justice system**, by means of a comprehensive reform of the organisational arrangements of its jurisdiction, in order to resolve issues relating to the independence, autonomy, specialisation and professionalisation of the tax court, and to promote a renewed relationship of sincere cooperation between the State and the taxpayer, as well as to encourage tax mediation and means of deflating litigation, with a positive impact on speed and certainty of collection.

### ***The measures under consideration by Parliament***

The Chamber's Finance Committee is currently examining a number of **legislative proposals concerning the preferential definition of taxes, assessment, collection and tax disputes**, with a view to encouraging economic recovery (A.C. 1575 Caretta, A.C. 2457 Martino, A.C. 2465 and 2555 Bitonci).

In a nutshell, draft laws 2457, 2465 and 2555 provide for automatic tax definition mechanisms for specific categories of business income; in addition, draft law 2465 permits the regularisation of assets held abroad; draft law 2555 reproduces and updates a number of so-called tax peace measures already governed by Decree-Law No 119 of 2018. Lastly, draft law 1575 makes it possible to define 'simple notices' in a speedy manner.

## PERSONAL INCOME TAX IN MAIN EUROPEAN COUNTRIES

### *France*

#### *1. Income tax*

Income tax is governed by article [1A et seq.](#) of the *General Tax Code* (CGI).

The calculation of income tax is laid down in [Article 197](#) of the CGI, as amended by Article 2 of the Finance Law for 2020 (*Loi No 2019-1479 du 28 décembre 2019 de finances pour 2020- LF 2020*) and, most recently, by *Décret No 2020-897 du 22 juillet 2020 portant incorporation au code général des impôts de divers textes modifiant et complétant ceres dispositions de ce code.*

The current rule provides for the following rates, based on the division of taxpayers into four income bands:

Income (in EUR)	Rate
0 to 10.064	0 %
From a fraction of more than 10,064 but not more than 27,794	14 %
From a fraction of more than 27,794 but not more than 74,517	30 %
From a fraction of more than 74,517 but not more than 157,806	41 %
For the fraction exceeding 157,806	45 %

At the end of 2011, the government approved a number of measures to reduce public deficit, including the introduction of an “**exceptional contribution on high incomes**”. [Article 223e of the](#) CGI, introduced by Article 2 of the Finance Law for 2012 (*Loi n. 2011-1977 du 28 décembre 2011 de finances pour 2012 — LF 2012*), fixed at **3 %** the contribution rate to be applied to the reference tax fraction of **between EUR 250,000 and EUR 500,000** for single, widows, separated or divorced persons **and between EUR 500,000 and 1 million** for taxpayers subject to joint taxation (married couples or PACS couples). The contribution rate is increased to **4%** for income **above EUR 500,000** for single, widows, separated or divorced persons and **EUR 1 million** for taxpayers subject to joint taxation (couples in matrimonial or PACS). That contribution, again in accordance to Paragraph 2 of the LF 2012, applies until the tax year for which the general government deficit is zero.

#### *2. Family quotient*

According to the ‘quotient familial’ governed by [Articles 194 to 197](#) of the CGI, the taxpayer is liable to income tax on all profits and incomes of the members of the tax family (*‘foyer fiscal’*), consisting of the taxpayer, any spouse

(or partner in the case of a PACS), any minor children and any disabled members who depend on the taxpayer.

In order to determine the family quotient, it is necessary to determine the number of shares (or parts representing the family loads) allocated to each type of taxpayer (e.g. single, married, divorced, widower), considering those who depend on other taxpayers.

The family quotient is the result of the division of the total income of the *foyer fiscal* by the number of shares to which it is entitled. The number of shares has a considerable impact on determining the tax on the income to be paid.

Specifically, the tax is calculated on the basis of the family quotient, i.e. only on a proportion of the total income, but the actual tax burden is the result of 'individual taxes' multiplied by the number of parts (or shares) in the tax household.

[Article 194](#) of the CGI provides a table showing the number of shares to be taken into account for the division of the total income of the *foyer fiscal*:

Household status	Number of parties (or quotas)
Single, divorced or widowed without dependent children	1
Married without dependent children	2
Single or divorced with a dependent child	1.5
Married or widowed with a dependent child	2.5
Single or divorced with two dependent children	2
Married or widowed with two dependent children	3
Single or divorced with three dependent children	3
Married or widowed with three dependent children	4
Single or divorced with four dependent children	4
Married or widowed with four dependent children	5
Single or divorced with five dependent children	5
Married or widowed with five dependent children	6
Single or divorced with six dependent children	6

#### Example

A married couple has 3 children and a taxable income of EUR 100,000 per year. The family quotient is equal to the taxable income divided by the number of shares:  $\text{EUR } 100,000/4 = \text{EUR } 25,000$ .

Income tax is calculated by applying the progressive income tax over a full proportion:

- the first income band (from EUR 0 to EUR 10,064) is exempt from tax, so that EUR 14,936 (25,000-10,064) remains to be taxed;

- the second income bracket (from EUR 10,064 to EUR 27,794) is taxed at 14%, i.e. EUR 2,091.04 (14,936 x 14 %) per unit.

Thus, in order to calculate the amount of tax due, given that the ‘tax household’ consists of 4 parts, the contribution obtained must be multiplied by the number of parts:

- EUR 2,091.04 x 4 = EUR 8,364.16, rounded to the nearest EUR 8,364.

If children were not taken into account, income tax would be calculated on the basis of 2 allowances and its theoretical amount would rise to EUR 18,288.

The couple therefore benefits from a **tax advantage of EUR 9,924**, excluding the application of the limit on increases in the family quota and the possible set-off of debts and tax advantages available to the couple.

#### a. Limitation of the effects of the family quotient

Increases in the family quotient (half shares, quarters of shares in the case of alternating residences in addition to 1 or 2 shares, depending on the taxpayer’s personal circumstances) may be subject to a **limit** in order to limit the tax advantage provided for by the family quotient system.

The tax reduction limit linked to the family allowance is laid down in [Article 197](#) of the CGI:

- **EUR 1,567** for each additional half related to dependant members, in the general case;
- **EUR 936** for half of the additional fee, for those who have raised one child alone for at least 5 years.

#### b. Specific limits

Specific limits shall apply to taxpayers who are in one of the following situations:

- single parent keeping the children alone: **EUR 3,697** for the full share granted to the first dependent child (single, divorced or separated taxpayers raising one or more children alone);
- disabled or disabled person due to war: an additional tax reduction of **EUR 1,562 shall be applied when** the limit of EUR 1,567 is reached for half of the additional share granted. The final benefit is therefore limited to **EUR 3,129**;
- widower with dependent children: an additional tax reduction of **EUR 1,745** is granted once the limit for the first two additional half-allowances plus one quota is reached. This limits the tax advantage to **EUR 4,879**.

See also the ‘Family quotient’ factsheet at: <https://www.economie.gouv.fr/particuliers/quotient-familial>.

## Germany

The personal income tax (*Einkommensteuer*), which is the main source of revenue in Germany, is governed by the [Einkommensteuergesetz](#) — EStG (Income Tax Act) in the consolidated version of 8 October 2009, as last amended by Law of 12 August 2020.

The tax is progressive in nature and applies to the following types of income:

- income from agricultural and forestry activities (§ § 13-14a EStG);
- income from commercial or industrial activities (§ § 15-17 EStG);
- income from self-employment (§ 18 EStG);
- compensation of employees (§ § 19 EStG);
- property income (§ 20 EStG);
- rental and leasing income (§ 21 EStG);
- other income (§ § 22-23 EStG).

The tax base excludes maintenance due by spouses, unemployment benefits, study grants, and income below- in 2020 - EUR 9,408 in case of single (or even separated or divorced) persons or EUR 18,816 for married couples, including civil partnerships. Above the exempt threshold (*Grundfreibetrag*), the rates vary continuously and gradually between 14% (*Edecegssteuersatz*) and 42%. The highest rate (*Spitzensteuersatz*) of 45% applies only to income above EUR 270,500.

The following table summarises the income tax rates for 2020 under § 32a EStG:

Income (in EUR)	Rate
0 to 9,408	0%
9,409 to 57,051	14% (initial variable rate depending on income)
57,052 to 270,500	42%
270,501 and more	45%

On this tax an additional social solidarity tax (*Solidaritatzuschlag*) of 5.5 % ([Paragraph 4 Solidaritatzuschlaggesetz](#)) is applied. The solidarity surcharge was introduced by Law of 24 June 1991 and, with the subsequent wording of 1995, was justified by the additional costs of German reunification, which included debts and pension obligations of the East German Government (DDR), as well as the costs of upgrading infrastructure and environmental rehabilitation in the new *Lander*.

Under [Paragraph 106](#) (3) and (5) of the Basic Law (*Grundgesetz*), income tax revenue accrues to the Federation, the *Lander* and the municipalities. The latter receive 15 % of income tax revenue, while the remaining 85% is divided into

half (42.5% each) between the federal government and the governments of the individual *Länder*.

The tax office (Finanzbezirk) of the district in which the taxpayer is domiciled is responsible for the assessment and collection of personal income tax. Each taxpayer may also calculate its taxes on the website of the Federal Ministry of Finance (<https://www.bmf-steuerrechner.de/ekst/eingabeformekst.xhtml>), depending on the civil status and on the basis of the relevant tax year (from 1958 onwards).

## *United Kingdom*

### *1. Income tax*

Income tax, governed by the *Income Tax Act 2007*, applies to the total income of individuals resident in the United Kingdom, wherever the income has been generated (so-called *world-wide principle*). This tax applies to different types of income such as — to name only the main ones — compensation of employees and self-employment, income from pensions, rental income, dividends, *capital gains* and income received by trusts. On the other hand, certain types of income are eligible for exemption: income from child support; interest income on tax refunds; maternity allowance; pensions paid to war widows; disability pensions.

For the purposes of determining the *Income tax*, the tax period in the United Kingdom runs from 6 April of each year to 5 April of the following year.

The tax is subject to progressive rates, **by income bracket**, up to a maximum of 45 %. For each category of income, the domestic legislation (with some variations for Scotland and Wales) provides for specific rules for determining the total income, starting from the gross compensation received and applying personal allowances laid down by law. Taxation is structured on the basis of four income thresholds (*bands*), consisting of a band corresponding to a progressive threshold for the deduction of personal income tax from the level of total income, provided that this does not exceed £100,000 (*personal allowances*); two tax bands, one basic and one high (*basic and higher rates*, applied to income not exceeding £50,000 and £150,000 respectively); the latest range of income is above GBP 150,000 threshold (*additional rates*).

The following table shows the personal income tax rates for the **tax year 2020-2021**:

<b>Categories of income</b>	<b>Income brackets</b>	<b>Tax rate</b>
<i>Personal allowance</i>	up to £12,500	0%
<i>Basic rate</i>	12,501 to 50,000	20%
<i>Higher rate</i>	50,001 to 150,000	40%
<i>Additional instalments</i>	over 150,000	45%

Source: GOV.UK, [Income Tax Rates and Personal Allowances](#), 2020-2021

**Deductions** are also provided for specific **types of income** and certain **categories of taxpayers**. For example, a deduction of GBP 1,000 is provided for trading allowance and, under certain conditions, for rental income. Personal status, on the other hand, has an impact on the deductible income, since married couples or couples in civil partnership may benefit, within certain income thresholds, from special deductions as married couple allowances (Source:GOV.UK., [Married couples' allowance](#)).

Full tax exemption is provided for public subsidies granted to disadvantaged groups. On the other hand, with effect from 2016, the adjustment of deductions in proportion to the age of the taxpayer has ceased to apply.

The existing deduction mechanism for personal tax liability also applies to income generated by forms of savings and financial investments.

The personal allowance may be used by the taxpayer for the deduction of other income consisting of **interest earned on savings** (in the form of life insurance, accumulation plans, participations in trusts or investment funds). Income of this kind is subject to a maximum deductible amount of GBP 5,000 per annum, degressive in proportion to other income received up to the allowance for annual income of £17,500 or more.

Personal income from **equity dividends**, previously (until 2016) taxed at rates commensurate with the taxpayer's income bracket (from 7.5% for non-taxable or basic income, up to 42.5% for the bracket subject to the additional rate), currently benefits from a deductible threshold of **up to GBP 2,000** (dividend allowance). Subsequently, income exceeding that threshold is taxed at 7.5% if the taxpayer is subject to basic rates, 32.5% for the higher-rate income band and 38.1 % for income subject to additional instalments.

**The collection of taxes** takes place differently, depending on whether the declarant is an employee (or pensioner) or a self-employed person.

In the first case, the so-called PAYE (Pay As You Earn) system applies, under which the employee receives his or her remuneration less deductions on account levied by the employer, while the final credit or debit balance is determined annually when submitting the tax return. On the other hand, for self-employed persons or for complex tax transactions, the procedure for self-declaration (self-assessment) is laid down, which involves compiling and sending their tax return (also in electronic form) to the tax authorities (HM Revenue & Customs).

Income from employment and self-employment is also subject to national insurance contributions, which are borne by employees and employers in different proportions and in relation to income brackets.

## ***2. Taxation of financial gains***

Income from **capital gains** (i.e. from financial assets earned by the taxpayer by virtue of the difference in value between the purchase price and the price of

the subsequent disposal of a particular asset) is taxed if it exceeds the annual exemption threshold currently of GBP 12,300 (but of GBP 6,530 if the income derives from shares in a trust).

The **capital gain tax**, in particular, is due to the capital gain generated by the disposal of;(a) movable property, if the value of which exceeds GBP 6,000 (excluding motor vehicles); (b) real estate (except first dwelling provided that a certain threshold of total income is not exceeded); (c) shares; (d) capital goods (including industrial property rights and goodwill).

The rate shall be determined in relation to the goods supplied and the taxpayer's income bracket. It is therefore 20% for taxpayers classified in the higher income classes (higher and additional rates), and 28% for the same category of taxpayer when the capital gain is generated by the transfer of a residential property. On the other hand, a taxpayer subject to the basic rate and who has earned a capital gain which does not exceed the relevant bracket is subject to a tax of 10% and 18% respectively in the case of residential property. On the other hand, capital gain tax is levied at the rate of 20 %, and 28 % in the case of residential property, on amounts exceeding the maximum limit subject to a *basic rate* (Source:GOV.UK, [Capital Gains Tax](#)).

In a limited number of cases, the tax applicable is not calculated on the capital gain, but on the market value of the asset transferred (transfers between spouses, donations to foundations, transfer of assets acquired before 1982).

### *Spain*

The personal **income tax** (*Impuesto sobre la Renta de las Personas Físicas—IRPF*) is governed by Law 35/2006 ([Ley 35/2006, de 28 de noviembre, of the Impuesto sobre la Renta de las Personas Físicas y de Modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Regta dela Regta de las Residentes y sobre de l'alteración parcial de las leyes de los Impuestos sobre Sociedades, Sobre la Regta de no Residentes y sobre de la Imprimonio parcial de las leyes de los Impuestos sobre Sociedades, Sobre la Regta de Regta de Residentes y sobre, 439/2007](#)<https://www.boe.es/buscar/act.php?id=BOE-A-2007-6820>, and the Royal Decree 439/2007).

The IRPF is a personal and direct levy based on the principles of equality, generality and progressivity. It affects various categories of income: labour, capital, income from economic activities, gains in assets, other statutory income allocations.

Since **1 January 2016** the rates vary from **19% to 45%**, but the percentage of the rate may change depending on the Autonomous Community of residence.

The total rate is the sum of the rate set at State level and that of the Autonomous Community ([Tramos IRPF 2020](#)).

Income (in EUR)	State rate	Autonomous rate	Total rate
0 to 12,450	9.50%	9.50%	19%
12,450,01 to 20,200	12%	12%	24%
20,200.01 to 35,200	15%	15%	30%
35,200.01 to 60,000	18.5%	18.5%	37%
Over 60,000,00	22.5%	22.5%	45%

The table refers to a general autonomous type of tax which is applicable only to non-residents in Spain. In any other case, it is necessary to consult the specific tables of the Autonomous Community in which the taxpayer resides.

It should also be noted that some Autonomous Communities (Navarra, Basque Country) have full competence over tax transfers, so that they can determine the total share of the IRPF, for example in Navarra the rates are different, with a maximum rate of 52%.

See Jose Trecet, “[Tablas de IRPF por comunidades autónomas: Cuánto pagarás en la declaración de la renta según donde vivas](#)”, Business Insider, 26 April 2020.

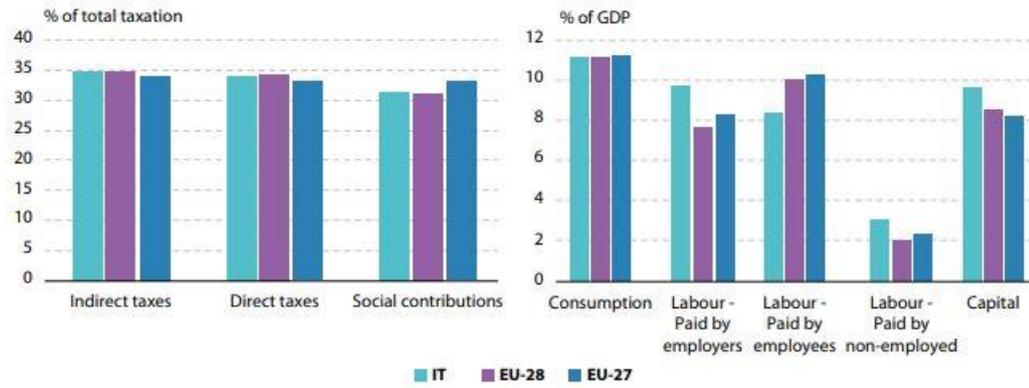
In October 2020, the Spanish Government proposed to add to the existing bands an additional rate of **47%** set for income above EUR 300,000. The reform, contained in the draft budget law ([Proyecto de Ley de Presupuestos Generales del Estado para el año 2021](#), submitted to the Congress of Deputies on 28 October 2020), would still enter into force in 2021.

See also “[El Gobierno aprueba los Presupuestos de 2021, con subidas en el IRPF, Sociedades y Patrimonio](#)”, Europapress, 27 October 2020.

## APPENDIX — GRAPHS AND TABLES

Composition of the tax revenue of the main Italian tax categories, compared with those of the EU-28 and EU-27 in 2018. The following graphs and tables are taken from European Commission report *Taxation Trends – 2020 edition*.

**Figure IT.1:** Tax revenues by main taxes, compared to EU-28 and EU-27, 2018  
(in % of total taxation (left graph) and in % of GDP (right graph))



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data  
Note: EU-27 represents EU Member States without UK

## Quantitative breakdown of tax revenue in Italy

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ranking 2018	Revenue 2018 (billion euros)
<b>A. Structure by type of tax</b>															
<b>as % of GDP</b>															
<b>Indirect taxes</b>	14.6	14.5	13.7	13.5	14.0	14.1	15.3	14.9	15.4	15.2	14.4	14.5	14.5	10	256.7
VAT	5.9	5.9	5.7	5.5	6.0	6.0	5.9	5.8	5.9	6.1	6.0	6.2	6.2	27	109.4
Taxes and duties on imports excluding VAT	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	22	2.3
Taxes on products, except VAT and import duties	5.0	4.9	4.7	5.0	4.9	5.1	5.4	5.4	5.6	5.3	5.5	5.2	5.2	3	92.4
Other taxes on production	3.5	3.5	3.1	2.9	2.9	2.9	3.8	3.6	3.7	3.6	2.8	2.9	3.0	5	52.6
<b>Direct taxes</b>	13.8	14.5	14.7	14.9	14.3	14.2	14.9	15.2	14.7	14.7	14.9	14.6	14.2	7	250.4
Personal income taxes	10.5	10.9	11.3	11.2	11.3	11.1	11.8	11.9	11.9	12.1	11.8	11.7	11.6	5	204.4
Corporate income taxes	2.8	3.1	2.9	2.4	2.3	2.2	2.3	2.5	2.2	2.0	2.1	2.1	1.9	25	32.8
Other	0.5	0.5	0.5	1.3	0.7	0.9	0.7	0.8	0.6	0.6	1.0	0.8	0.7	12	13.2
<b>Social contributions</b>	11.6	12.3	12.7	13.2	13.0	12.8	13.0	13.0	12.9	12.9	12.7	12.7	13.0	10	230.0
Employers'	8.1	8.5	8.6	9.1	9.0	8.8	8.8	8.8	8.7	8.7	8.5	8.5	8.7	5	154.2
Households'	3.5	3.8	4.1	4.1	4.0	4.0	4.2	4.3	4.2	4.3	4.2	4.2	4.3	15	75.8
Less: capital transfers (%)	:	:	:	:	:	:	:	:	:	:	:	:	:		
<b>Total</b>	40.0	41.3	41.1	41.5	41.2	41.1	43.1	43.2	42.9	42.8	42.1	41.8	41.8	7	737.1
<b>B. Structure by level of government</b>															
<b>as % of total taxation</b>															
<b>Central government</b>	58.4	57.6	57.2	57.2	57.4	57.5	57.9	58.2	57.9	57.7	59.5	59.0	58.1	16	428.4
<b>State government (%)</b>	:	:	:	:	:	:	:	:	:	:	:	:	:		
<b>Local government</b>	12.2	12.3	11.5	10.8	10.8	11.0	11.7	11.3	11.8	11.4	9.9	10.0	10.2	9	75.4
<b>Social security funds</b>	29.0	29.8	31.0	31.7	31.5	31.2	30.1	30.2	30.0	30.2	30.2	30.4	31.2	12	230.0
<b>EU institutions</b>	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	0.4	0.6	0.5	16	3.4
<b>C. Structure by economic function</b>															
<b>as % of GDP</b>															
<b>Consumption</b>	10.5	10.4	10.0	10.1	10.6	10.7	11.1	10.8	11.1	11.1	11.2	11.1	11.1	21	196.8
<b>Labour</b>	19.5	20.2	20.8	21.4	21.5	21.1	21.6	21.6	21.3	21.1	20.6	20.7	21.0	7	371.0
of which on income from employment	17.3	18.0	18.4	18.9	18.8	18.4	18.7	18.7	18.3	18.1	17.6	17.7	18.0	9	317.9
Paid by employers	9.9	10.2	10.2	10.5	10.4	10.3	10.3	10.2	10.0	9.7	9.3	9.4	9.7	5	170.6
Paid by employees	7.5	7.8	8.2	8.3	8.3	8.1	8.4	8.5	8.3	8.4	8.3	8.3	8.3	17	147.3
Paid by non-employed	2.2	2.2	2.4	2.6	2.7	2.7	2.9	2.9	3.0	3.1	3.0	3.0	3.0	3	53.1
<b>Capital</b>	9.9	10.7	10.3	10.0	9.2	9.3	10.5	10.7	10.5	10.6	10.3	10.0	9.6	5	169.4
Income of corporations	3.4	3.8	3.6	2.9	2.8	2.7	2.9	3.1	2.7	2.7	2.6	2.5	2.3	18	41.4
Income of households	1.2	1.3	1.3	1.2	1.0	1.0	1.2	1.3	1.4	1.4	1.3	1.3	1.2	7	20.4
Income of self-employed	3.2	3.4	3.5	3.2	3.2	3.2	3.4	3.3	3.2	3.4	3.3	3.2	3.2	2	56.5
Stock of capital	2.2	2.2	1.9	2.7	2.2	2.3	2.9	3.0	3.1	3.1	3.2	3.0	2.9	7	51.2

Table IT.1: Tax Revenue (continued)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ranking 2018	Revenue 2018 (billion euros)
<b>D. Environmental taxes</b>															
<b>as % of GDP</b>															
<b>Environmental taxes</b>	2.9	2.7	2.6	2.8	2.8	3.0	3.5	3.4	3.6	3.4	3.5	3.3	3.3	7	57.8
Energy	2.3	2.1	2.0	2.2	2.2	2.4	2.8	2.8	2.9	2.7	2.8	2.6	2.6	5	46.3
of which transport fuel taxes	1.4	1.4	1.3	1.4	1.4	1.4	1.7	1.6	1.6	1.6	1.5	1.5	1.5	14	
Transport	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	10	10.9
Pollution and resources	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.04	16	0.6
<b>E. Property taxes</b>															
<b>as % of GDP</b>															
<b>Taxes on property</b>	2.0	2.0	1.7	2.1	1.8	2.0	2.5	2.6	2.8	2.7	2.4	2.4	2.4	8	43.0
Recurrent taxes on immovable property	0.8	0.8	0.6	0.6	0.6	0.6	1.5	1.4	1.7	1.7	1.4	1.4	1.4	5	25.0
Other taxes on property	1.2	1.2	1.1	1.5	1.2	1.4	1.0	1.2	1.1	1.0	1.0	1.0	1.0	8	18.0
<b>F. Implicit tax rates</b>															
<b>%</b>															
<b>Consumption</b>	15.1	15.1	14.4	14.2	14.8	15.0	15.4	15.2	15.6	15.6	15.9	15.7	15.7	25	
<b>Labour</b>	41.6	43.5	43.7	43.6	43.9	43.4	44.0	44.2	43.6	43.4	42.5	42.6	42.7	3	
<b>G. Payable tax credits</b>															
<b>as % of GDP</b>															
<b>Total payable tax credits</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.8	0.9	0.7	0.9	0.6		11.4
Tax expenditure component	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.5	0.5	0.5		8.8
Transfer component	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.5	0.4	0.2	0.4	0.1		2.6
<b>Total tax revenue adjusted for payable tax credits</b>	<b>40.0</b>	<b>41.3</b>	<b>41.1</b>	<b>41.5</b>	<b>41.2</b>	<b>41.1</b>	<b>42.8</b>	<b>43.0</b>	<b>42.1</b>	<b>42.0</b>	<b>41.3</b>	<b>40.9</b>	<b>41.1</b>		<b>725.7</b>

(1) Representing taxes assessed but unlikely to be collected.

(2) This level refers to the *Länder* in Austria and Germany, the *gewesten and gemeenschappen / régions et communautés* in Belgium, and the *comunidades autónomas* in Spain.

Source: European Commission, DG Taxation and Customs Union, based on Eurostat data