

HOW THE TAX ADMINISTRATION IS ENABLING BETTER COOPERATION WITH TAXPAYERS

In 2015 the Italian Parliament passed a law delegating powers to the Government to undertake a sweeping reform of the rules governing the relationship between taxpayers and tax administrators. The reform has the ambitious goal of establishing a cooperative relationship, with the Revenue Agency (*Agenzia delle Entrate*) supporting taxpayers in their tax compliance. This is a far-reaching cultural and operational change, aimed at preventing tax evasion and avoidance, increasing voluntary tax compliance and reducing litigation, rather than relying on the traditional audit approach; the change was inspired by the recommendations set out in the OECD and IMF reports on Italy's tax administrators, commissioned by the Ministry of the Economy and Finance.

The Government implemented three main tools aimed at promoting an 'advanced dialogue' and providing certainty on the taxes due by enterprises: advance pricing agreements for multinational companies operating on an international basis, cooperative compliance regimes and advance rulings on new investment.

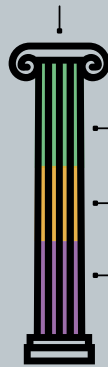
Advance pricing agreements provide greater certainty to companies operating on an international basis on cross-border tax issues, including transfer pricing or on other inbound or outbound revenue flows as well as on income eligible for patent box incentives.

For taxpayers with turnover or revenues exceeding bn 10€, a **cooperative compliance regime** has been devised, offering an advance dialogue and enhanced cooperation with the Revenue Agency. The regime provides

also access to a fast-track for the advance ruling on new investments (see below), a 50% reduction of penalties and exemption from the guarantee in

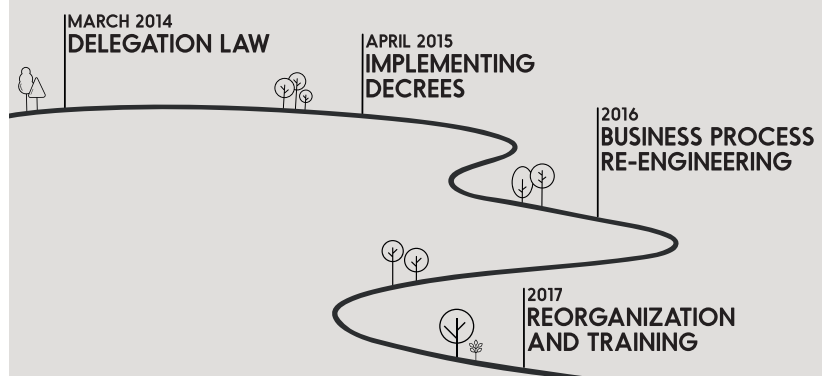
investment plan and its implementation. The Revenue Agency's response is binding and any audit activity is performed only provided that the

THE REVENUE AGENCY AS A PARTNER



- ADVANCED PRICING AGREEMENTS
- RULINGS ON NEW INVESTMENTS
- COOPERATIVE COMPLIANCE REGIME

TIMING FOR A STRUCTURAL CHANGE



case of refund requests. Advance rulings on new investment can be filed by companies planning investments exceeding €30 million in Italy with significant and long-lasting impact on employment levels. Large investors only need to submit one query on any tax issue in order to obtain an opinion relating to a specific

authority that issued the advance ruling agrees to it. The recent reorganization of the Italian Revenue Agency aims at the actual implementation of these principles that the Government intends to enforce through these new tools. This new structure replaces the previous model based on processes and is now focused on the taxpayer

type: Individuals, Self-employed and Non-commercial entities; Small and Medium-sized Enterprises; Large business taxpayers. This new approach will ensure more effective interaction with these specific categories of taxpayers as well as targeted audit activities.

The Agency's main mission will be the coordination of the assessment activities, including the use of tax compliance measures, the various types of advance pricing agreements and rulings, litigation and collection. The new approach ensures that all the recent tax measures adopted by the Government to strengthen business growth and competitiveness will be effective, with positive impact on the economy, including: the Patent Box regime, which facilitates the economic exploitation of intellectual property; ACE (*Aiuto alla crescita economica*) i.e. allowance for corporate equity, promoting capitalisation; research and development tax credit; 'superdepreciation' and hyperdepreciation', enabling companies to depreciate the

new (both tangible and intangible) capital goods and giving an incentive to Italian firms to invest more in technological and digital innovation, in line with the purpose of the "Industria 4.0 national plan".

In addition, measures to attract human capital have been adopted or reviewed: i) incentives to encourage **university professors and researchers, as well as managers and self-employed professionals** and high-net worth individuals to transfer their residence to Italy; ii) the so-called 'carried interest', which refers to financial income, as opposed to income from employment, income from financial instruments owned by **managers and employees** of companies, entities or undertakings for collective investment. Finally, **individual savings plans** (known under the acronym PIR - *piani individuali di risparmio*) have strengthened the link between companies needing funding and savers: a regime providing tax exemption for return on these financial instruments promotes the medium-to-long term

funding of businesses.

In order to complete the reorganization of work processes with a view to simplifying the relationship with taxpayers, all collection activities, that previously were scattered across a number of entities, have been taken over by a single newly established government agency called '*Agenzia delle entrate - Riscossione*' (literally Revenue Agency-Collection). The latter is supervised by the Ministry of the Economy and Finance and is chaired by the Head of the Revenue Agency. This change in operations made by the Revenue Agency will enable the timely implementation of any new measures that may be introduced in the future (such as the simplification of tax regimes and simplified compliance procedures, a wider range of digital services, the coordinated use of information in databases, the establishment of an integrated real estate registry).

Ernesto Maria Ruffini
Head of the Revenue Agency



PUBLIC DEBT AND DEFICIT ON A DECLINING PATH

Italy's deficit-to-GDP ratio declined from -2.5% to -1.9% in 2017 (a reduction of €8.5 bn over the previous year), overcoming Government target set at 2%. Data do not include interventions for the Veneto banks which have to be formally assessed by Eurostat.



The overall tax burden (including direct and indirect taxes, capital taxes and social security contributions as a % of GDP) **has declined by 0.3% since 2016**, reaching 42.4% of GDP in 2017.



Italy's debt-to-GDP ratio is slowly shrinking. Last year it edged down from 132% to 131.5%.

SOURCE: ISTAT AS OF MARCH 1ST

PAGOPA: A UNIQUE NODE FOR PAYMENTS TOWARDS THE PUBLIC SECTOR



PagoPA is the platform managing payments centrally, providing automated reporting and reconciliation services to one (or more) government accounts, without errors and with huge savings on processing costs.

It was launched in 2013, but its use was limited until 2016 when PagoPA was redesigned to meet citizens' needs and improve user experience.

The new platform designed by the [Team for Digital Transformation](#) in agreement with [AgID](#) (Agenzia per l'Italia Digitale) allows every citizen to choose how to pay via online or offline options implementing three main principles:

- 1. It Improves citizens' online and offline payment experiences from a mobile-first perspective;**
- 2. It provides more and better quality digital payment options;**
- 3. It changes the architecture of the node from a pure hub that redirects transactions to the banks to a real payment gateway providing innovative payment and accounting solutions (such as PayPal and Satispay).**

PagoPA is fully compliant with the European payment regulations ([PSD](#) and [PSD2](#)).

Once fully operational, PagoPA will allow every citizen to pay taxes, university fees, school meals, fines, the municipal waste tax (TARI) and to pay for many other services provided by the Public Administration with a credit and debit card - just like on any other e-commerce website. Citizens can also save their payment preferences so that the disbursements can be made with just one click.

The new front-end architecture of the PagoPA platform and the related libraries for mobile apps (SDKs - Software Development Kits) are on [De-](#)

[velopers Italia](#), to facilitate the integration and use of the various Public Administration proprietary applications.

Through PagoPA, the public sector, will benefit of a drastic reduction in the cost of processing payments because each disbursement is now linked to a code named IUUV (Identificativo Univoco Versamenti) allowing to close the accounting position and reconcile.

In addition, Public Administration will profit from a sharp drop in processing costs (currently weighing heavily on the entire community), and will gradually phase out the use of cash (still the most widely used payment method to date) promoting the use of electronic payments. This is a big step forward, since it would help reduce the costs associated with cash management, which in Italy amount to ten billion euros per year, and account for 0.53% of GDP (source: Ambrosetti). The latter aspect, in particular, would be a breath of fresh air in the digital payment ecosystem, favoring the development of new technologies and alternative solutions for a cashless culture and promoting the growth of the emerging Fintech industry.

Not every citizen can or is willing to pay online. Therefore, also offline payment solutions must be available and must be user-friendly for citizens who prefer to pay either at the post office or at an authorized point of sale.

The new PagoPA paper-based notice was tested on a pilot basis to notify taxpayers of TARI in the Municipality of Milan. It is a simple and straightforward form that clearly shows to citizens all available payment options: via the municipal website, the bank or post office, or at the tobacconist's kiosk etc.

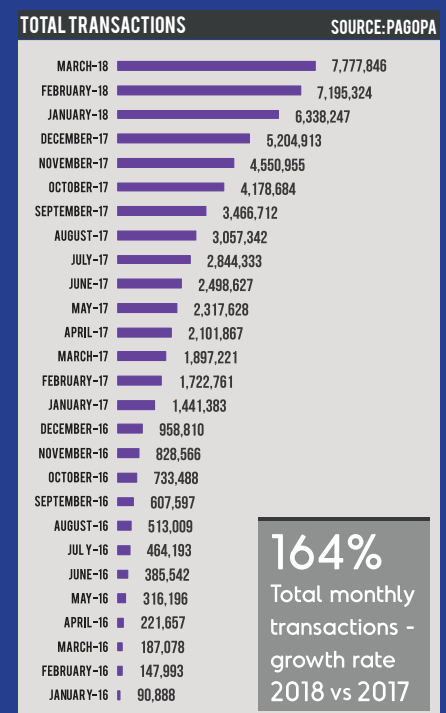
The consolidated results of the TARI for the Municipality of Milan

were considerable:

over 532 thousand transactions with a total of over 182 million euros received. Compared to 2016, revenue increased by 46% in the first month, with an overall increase of 20%, i.e. 30 million euros approximately. Many payments were made during weekends or late at night, or via the new channels that were not available last year. In short, citizens made a higher number of payments and faster than they did when the old system was in place. A detailed analysis of the TARI payment data for the Municipality of Milan showed that citizens used a variety of different channels to make their payments, including options provided by new market players like PayTipper, Satispay and PayPal. In addition, the negative feedback received by the Municipality was negligible.

To date, over 13 thousand Public Administration (more than 50 per cent of the total) are active on PagoPA.

The government's goal is to reach 30 million payments in 2018.

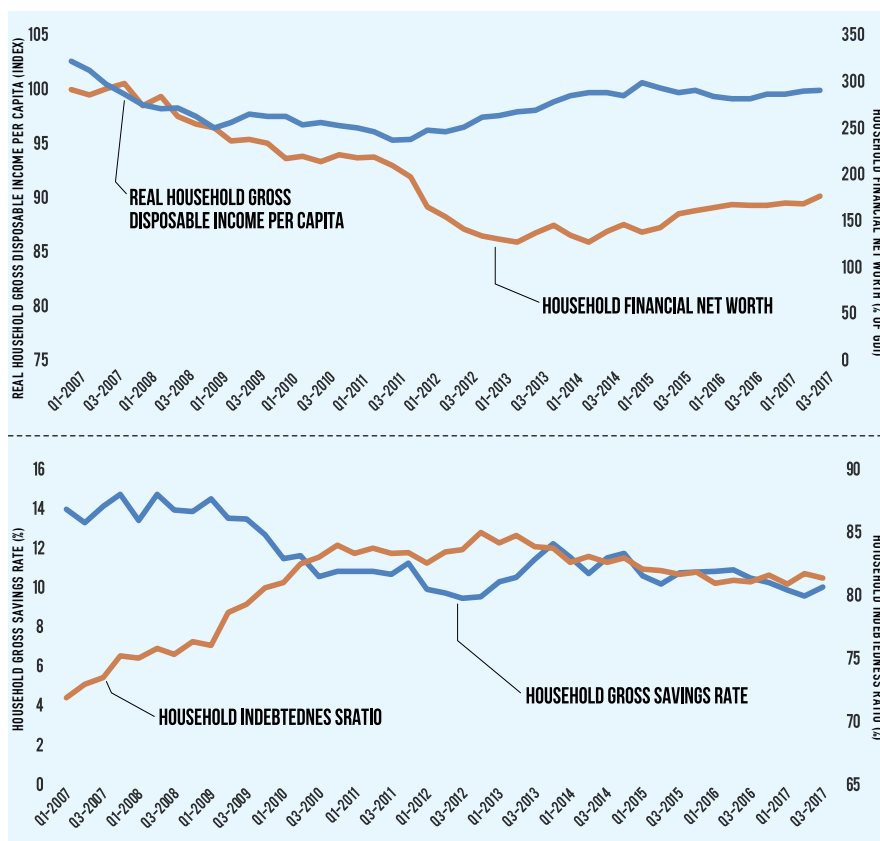


ITALY'S DEBT MAKES THE CASE FOR WHY PRIVATE IS BETTER THAN PUBLIC

Despite its very high public debt, Italy's economy is characterised by low private debt. **Italian households are less financially vulnerable than their peers in the European Union.** They are less indebted, apply for fewer consumer loans and have a high saving rate, as supported by data from different sources. A recent OECD analysis shows that household indebtedness in Italy increased moderately from 2000 to 2007 (from 51 to 80%), mainly thanks to greater access to credit and rising house prices. This is in line with general trends in OECD countries, however Italy's indebtedness is much smaller than Ireland's, whose debts skyrocketed by 123% in the same time span. Reduction of indebtedness in the after-

math of the crisis (2007-15) has been more moderate than elsewhere (e.g. Spain -33%, Denmark -32% or Ireland -56%). The change is reflected in the increase in the stock of durable goods (consumption), which increased rapidly from 2001 to 2008 (at a [yearly average of 3.3%](#)), then the pace slowed to a 2.6% yearly average to then decline consistently after 2011 until 2016 (latest available data), reaching €555.4 bn (the peak being €607 bn in 2012). At the same time, **Italy's debt-to-total assets ratio**, which indicates the ability to pay down the debt, remained unchanged from 2007 to 2015, **and is still among the lowest in OECD countries.** While there are several components affecting this ratio (i.e. the structure of the pension system),

on average rising debt-to-assets ratios imply lower resilience to shocks. **The number of indebted families has also been declining.** The SHIW survey conducted by the Bank of Italy shows that the percentage of indebted households went down from 27.8% in 2008 to 21% in 2016, the median value of indebtedness to monetary income ratio went down from 80% in 2012 to 63% in 2016. Moreover, the lower the income level, the higher the financial vulnerability: in 2016 60% of indebted households in the 1st income quartile were vulnerable, compared to only 29% in the 2nd quartile. Indebtedness is mostly generated by residential mortgages, that last year reached their highest level since 2013 - followed by consumption credit, which is significantly lower than in peer countries. Households own 92% of the total value of dwellings and 90% of land under cultivation (2001-2016 data). **While debt has decreased, net disposable income has steadily risen** (less than the EA average) since 2012 and net wealth has remained steady, while the EA average has increased. **The household saving rate has declined over time but is still high.** This reflects structural features of the Italian economy, including cultural factors, which turned out to be particularly relevant during the downturn. Although the crisis has affected some of these economic components and increased inequality, the overall picture is positive and confirms that "household resilience has kept improving since 2011, as shown by the declining trend of the liability-to-asset ratio. The Italian household debt-to-GDP ratio, steadily above 40% since 2009, remains far below the Eurozone average." (as from "Report on Financial Investments of Italian Household 2017, Consob.")



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In Italy, since the financial crisis, our duty as policy makers has been stabilising a high public debt while bringing the economy out of sluggish or negative growth and The Narrow Path is an image of the difficulties we are facing and the goals we are achieving. Here we update periodically a professional audience about the evolution of structural conditions affecting the economic activity in the country.