Reforming Tax Expenditures in Europe
Personal Income and Wealth Tax
25 February 2021

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Italian Ministry of Economy and Finance
# Tax Expenditure Report - Italy

How does it look like

<table>
<thead>
<tr>
<th>Progressive Number</th>
<th>Law by which it is introduced</th>
<th>Description</th>
<th>Characteristics</th>
<th>Estimated Financial effects</th>
<th>Other information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tax Base</td>
<td>Year of ending of the relief</td>
<td>Type of Beneficiaries</td>
</tr>
<tr>
<td>1</td>
<td>Art x Law n. XXX</td>
<td>“…”</td>
<td>CIT Tax Credit</td>
<td>2022</td>
<td>Corporates</td>
</tr>
<tr>
<td>2</td>
<td>Art y Law n. YYYY</td>
<td>“…”</td>
<td>PIT Tax allowances</td>
<td>Not ending</td>
<td>Physical persons</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Reports on Tax Expenditures: Italian example

General Information

General information:

- **Language**: Italian
- **Publicly available** online
- Prepared by a **Committee** composed of 15 representatives of statistical, fiscal and financial subjects institutes, prime minister offices, ministry of economy and finance and professors
- Aim of the report (stated in the legislative decree n.160/2015 art.1, p.1) : **Reduce, eliminate, reform tax expenditures which appear** (fully or partially)
  - Unjustified or old according to the new social or economic needs
  - Overlapping the expenses’ objectives.

→ Rationalise tax expenditures and increase accountability

An additional Policy report (published in September attached to the Update to the Economic and Financial Document- NADEF) is redacted by the Government and contains the amendments and changes the government intend to apply to the TEs
Reports on Tax Expenditures: Italian example
Legal dimension

Legal dimension:

• TE reporting is a legal requirement in Italy since the Legislative Decree n. 160/2015 article 1 (implementing Law Decree n. 23/ 2014, on fiscal reform) which prescribes monitoring of tax expenditures and the coordination with the budgetary process → Integrated in the Budget Law

  ➢ Rationale: avoid discretionality;
  ➢ Ensure tax transparency;
  ➢ Monitor public finance;
  ➢ Improve the report over time.

• For each TE, a legal reference is provided
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**TE Definition:**

TE is defined as a deviation from the **benchmark system**

The benchmark used in the report is the **Legal Benchmark** i.e. Current Tax Law Benchmark

→ The committee analyzes each TE to assess if deviates from the benchmark, i.e. if the measure deviates from the “normal nature” of the tax system.

**Practical Guidelines:**

• If the number of beneficiaries is high and broad, it should not be considered TEs
• If the Tax has been designed as to be progressive, then progressive tax rates are not considered TEs
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Estimation

- If **ex-post** data on the effective usage of the TE are available they are preferred, otherwise **ex-ante** estimation is provided
- **Ex-ante data are then compared with ex-post usage** of tax credits to correct the estimations
- **Micro-simulated data based on tax returns** are used to estimate the effect of the TE and are updated with the most recent tax returns available
- If tax returns data are not sufficient for estimation, other reliable external sources are used (e.g. publication, national statistics, statistics provided by trustworthy institutes, etc...)
- No definite minimum threshold is applied to evaluate the TE but TEs with very small impact are not estimated
Reports on Tax Expenditures: Italian example
Estimation dimension

Estimated TEs

<table>
<thead>
<tr>
<th>Year of publication</th>
<th>Number of TEs</th>
<th>Number of Estimated TEs</th>
<th>% of estimated TEs</th>
<th>Number of TEsImpossible to estimate</th>
<th>Number of TEs “Not estimated but of small amount”</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>468</td>
<td>273</td>
<td>58.3%</td>
<td>148</td>
<td>47</td>
</tr>
<tr>
<td>2017</td>
<td>466</td>
<td>292</td>
<td>62.7%</td>
<td>152</td>
<td>22</td>
</tr>
<tr>
<td>2020</td>
<td>602</td>
<td>423</td>
<td>70.3%</td>
<td>151</td>
<td>28</td>
</tr>
</tbody>
</table>
Reports on Tax Expenditures: Italian example
Description and classification

**Description:** For each TE a full description is provided

Classifications provided

1. Type of Tax Base (PIT, CIT, VAT, Excise, etc)
2. Type of Relief (Tax credit, Tax deduction, etc...)
3. Budgetary mission to which they are attributable, i.e. the area on which they have an impact (education, health, fuel and energy, etc)
4. Beneficiaries (Persons, firms etc)
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Classification by type of Tax Base

Cost and numerosity of TEs by type of tax

- PIT
- PIT/CIT
- REGISTRATION TAX
- NOT CLASSIFIED
- EXCISE
- SUBSTITUTE TAX
- VAT
- PIT/CIT/NAT
- CIT
- OTHER
- GIFTS AND SUCCESSION TAX
- CT/NAT

Total cost of TE for 2021-2023 in million of euros
Number of TEs
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Classification by type of Tax Relief

Cost and numerosity of TEs by type of tax relief

- **Cost of the measure (2021-2023) million of euros**
- **Number of TEs**
PIT Tax expenditure Focus

Some of the most expensive tax expenditures on PIT

- Tax credit for requalification of building heritage: €24 billion from 2021 to 2023 (19% of total cost of PIT related TEs)
- Tax credit for increasing energy efficiency of buildings: €10 billion from 2021 to 2023 (8% of total cost of PIT related TEs)
- Tax credit for health expenses: €10 billion from 2021 to 2023 (8% of total cost of PIT related TEs)
- Tax credit for passive interests on mortgage for main residence: €2 billion from 2021 to 2023 (2% of total cost of PIT related TEs)
Thank you for your attention

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