

# **Commissione tecnica paritetica per l'attuazione del federalismo fiscale (Copaff)**

**Ernesto Longobardi Alberto Zanardi**

**Meeting with the  
IMF Delegation**

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Experimental IMU was introduced by the first decree of the Monti Government (DL 201/2011 “salva-Italia”)

Starting from 2012, it substitutes:

- the pre-existing municipal tax on real estate (immobile property) ICI
- the PIT (Irpef) on the imputed income (cadastral income) of non rented property

Like ICI, IMU's tax base is the value of property, obtained multiplying the cadastral income by a coefficient which differs according to the category of the property

IMU is levied also on the owner occupied houses, which instead were not taxed with ICI

The standard rate is 0.76%

The Council of the Municipality can change the rate within the range +/- 0.3

$$0.46 \leftarrow 0.76 \rightarrow 1.06$$

For owner-occupied houses the standard rate is 0.4% which can be modified within a range +/- 0.2

$$0.2 \leftarrow 0.4 \rightarrow 0.6$$

For owner-occupied houses a tax credit of € 200 is contemplated.

For the years 2012 and 2013, the credit can be increased of € 50 for any child (less than 25 years), up to a maximum increase of 400 euro.

IMU includes two components:

- a Municipal tax
- a central government tax

The two components are paid together by the taxpayer, but they are distinctively indicated in the tax file

The State tax is given by one half the yield obtained applying the standard rate to the tax base diminished by the value of owner occupied houses:

**State tax yield =  $\frac{1}{2}$  0.0076 (tax base – value of owner occupied houses)**

## IMU revenue estimation (Department of Finance): (in millions of euro)

Central gvmt tax	9,000
Municipal tax	12,800
Total	21,800



The co-habitation of the State and the Municipal tax creates a disincentive to reductions in the tax rate

→ because the State component is fixed at the standardized level, any  $x\%$  reduction in the tax rate implies a  $2x\%$  reduction in the tax revenue

On more general grounds, the co-habitation compromises the capacity of the local property tax to enhance the “electoral accountability” of the local government

## Other shortcomings of IMU:

### 1) IMU disincentives the leasing of houses

Rented houses are charged with the income tax (the PIT or the withholding tax at 19% or 21%) and IMU, while not rented houses are only charged with IMU

Supposing a rate of return of 6%, a house is charged at a 2,02% or a 0,76% rate, if it is, respectively, rented or not (a 21% withholding tax has been assumed).

- 2) IMU is levied also on buildings which are productive assets of firms and the Municipalities are allowed to decrease the rate down to 0.4%  
This can produce distortions and phenomena of tax competition

The main goal of IMU reform is to assign the property tax to the sole responsibility of Municipalities

However the design of the reform crucially depends on the nature of the equalization system provided for Municipalities

A reform of IMU must be designed in connection with the equalization system for Municipalities, which should substitute the current temporary mechanism of “fondo sperimentale” starting with 2014 or even 2013

In 2011 and 2012 Municipalities have received grants from the State by means of “fondo sperimentale” (millions of euro):

2011: 11,365

2012: 6,825

The expenditure cuts recently approved by the Government with the Decree 95/2012 (the s.c. “spending review”) further reduce the size of the “fondo sperimentale”:

2012: -500

2013: -2,000

Thus in 2013 the “fondo sperimentale” will amount to 4,825 millions of euro

The “fiscal federalism” reform for Municipalities (Law 42/2009 and decree 23/2011) provides for equalisation based on both expenditure needs and tax capacity criteria according to the specific category of public services delivered by Municipalities

In particular expenditure needs equalization should be applied “fundamental services” (about 80% of the total expenditure)

The equalizing system for “fundamental services” is vertical, that is it provides for grants flowing from central government to Municipalities

With vertical equalization own taxes rates and tax sharing rates are set at the level necessary to provide the “richest Municipality” with revenue sufficient to cover its expenditure needs. For all other Municipalities tax resources are integrated by equalizing grants flowing from central government budget



The most direct way to implement IMU reform under the constraint of total tax yield being equal consists in:

- keeping the current structure of IMU unchanged and shifting IMU to the sole responsibility of the Municipal tier of government
- offsetting the part of IMU yield currently assigned to the central government (+ 9 billions of euro) with an equivalent cut of other central tax resources that at present are assigned to Municipalities:
  - the tax sharing financing the “fondo sperimentale” (4.8 billions of euro)
  - the municipal surcharge on PIT (about 3 billions of euro)

However this solution is inconsistent with the vertical pattern of the equalizing system of grants to Municipalities: the shifting of the whole IMU to Municipalities does not “leave room” for equalizing grants to “poorer Municipalities” funded by central government budget

An alternative solution consists in:  
reshaping IMU by clearly separating the local component  
uniquely assigned to Municipalities from the central  
government component:

- Municipal component on residential property:  
12,800 millions of euro
- Central government on commercial property:  
9,000 millions of euro (equal to the current sharing to  
central government)

In order to introduce a system of vertical equalizing grants, the Municipal revenue sharing on central government taxes currently funding the “fondo sperimentale” should be revoked and the corresponding resources should be used to finance vertical equalizing grants from central government budget to “poorer Municipalities”

According to the preliminary simulations the total amount of vertical grants to be assigned to Municipalities for the equalization of “fundamental services” is about 3,000-4,000 millions of euro (an amount which is close to the current size of the “fondo sperimentale”)