



Ministero  
dell'Economia  
e delle Finanze

# ITALY'S TAX ADMINISTRATION

## OVERVIEW OF THE REFORMS UNDERTAKEN

# 2018



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### A. INTRODUCTION

Italy has recently undertaken a series of critically important reforms, including in the area of taxation. Following a request from the Italian Minister of Economy and Finance Pier Carlo Padoan, the OECD and the IMF carried out independent reviews of the institutional arrangements of Italy's tax administration, and highlighted important issues related to tax compliance and collection. The reports, which were finalised and published in early 2016, contained recommendations based on a thorough benchmarking with other countries.

### B. AN OUTLINE OF THE OECD AND IMF REPORTS

#### **1. Institutional setting: Fragmentation of tax administration functions and autonomy of the agencies progressively eroded**

Both reports arrive at similar findings, chiefly that tax administration functions in Italy were fragmented across multiple bodies. It was also found that the conventions between the Ministry of Finance and the Revenue and Customs Agencies were heavily focused on operational matters. It was hence recommended to provide more strategic political oversight of the tax administration and at the same time shift the focus of the Conventions from outputs to outcomes and high-level indicators. In addition, the reports identified a number of legislative changes passed over time, which reduced the autonomy of the Revenue and Customs Agencies, in particular regarding hiring and internal promotion policies. The reports emphasised the importance of restoring the autonomy of the agencies to respond effectively to the fast-changing challenges of the tax system.

#### **2. Tax compliance: Mixed signals and need for a holistic strategy**

The OECD and the IMF noted a path of constant improvement of tax compliance since the creation of the agencies, but also identified the need for a holistic, coherent, and co-ordinated strategy. A number of specific issues were identified for example in the area of VAT, and more generally regarding the certainty and predictability of the tax system. The reports recommended to address key aspects of VAT non-compliance, with a revision of the VAT return filing obligations and the use of e-invoices. It was also suggested to implement a centralised high net worth individual (HNWI) unit, and continue efforts to provide additional certainty and predictability to investors, also by nurturing the new co-operative compliance approach. Finally, it was recommended to improve Italy's ability to solve

international tax disputes with other competent authorities and to clarify further the dividing line between civil and criminal tax issues.

### **3. Tax collection: procedural issues affected the integrity of the tax debt**

Again the OECD and the IMF noted a path of constant improvement in tax collection since the creation of *Equitalia* (the in-house company in charge of tax debt collection), but also underlined procedural issues which affected the overall integrity of the tax debt inventory. The reports also found that *Equitalia*'s powers to enforce the collection of tax debts had progressively been limited. While on the one hand these limitations were introduced to support debtors in financial difficulties, on the other hand they favoured a culture of "evasion from collection" which also went some way to explain the high stock of outstanding debt. The reports recommended increasing the accuracy and integrity of the tax debt inventory. It was suggested to give priority to an effective tax debt write-off policy and to take urgent action to ensure that the tax debt collection function is fully and timely informed of situations where taxpayers' liabilities are fully paid or extinguished. At the same time, the reports underlined the importance of providing the tax debt collection function with appropriate powers, in line with the situation in other countries.

## **C. ITALY'S ACTIONS TO IMPROVE THE TAX SYSTEM**

Since the publication of the OECD and IMF reports, Italy continued to review the governance and organizational structure of its tax administration, with the aim of securing greater coordination between the various tax authorities. The review has resulted in a number of structural and organizational changes, as well as actions to improve tax compliance and collection. The most important changes are outlined below.

### **1. Institutional setting**

#### **a. Launch of a Task Force for the Coordination of the Tax Administration**

In November 2016, Minister Padoan set up a task force ("*tavolo permanente*") for the coordination of tax administration. The task force provides a permanent point of contact to discuss challenges to the tax system and identify actions to address them. This feeds also into the annual *Atto di indirizzo* of the Minister ("*Guidelines*"), which now indicates the overall policy objectives to be achieved, together with

more specific guidelines directed at the different components of the tax administration.

### **b. Implementation of a new approach in the Conventions between the Ministry and the Tax Agencies**

The Conventions are now organised around Strategic Areas, Objectives and Indicators, aligned to the Minister's Guidelines. There are three strategic areas: provision of services, preventing non-compliance, and tackling fraud and evasion, with an increased focus on the first area. A further innovation in the Conventions is the shift from outputs to outcomes, with appropriate indicators. Particular emphasis has been given in the latest Conventions to actions aimed at increasing taxpayers' compliance and reducing the tax gap. For example, indicators now include for example those aimed at measuring the use of the pre-filled income tax return and of digital services, the time to obtain refunds, the use of preventive communications aimed at stimulating taxpayers' compliance, the number of rulings issued and of litigations won. Finally, the incentive structure is changing gradually and is now more closely linked to the Conventions' objectives and related indicators, rather than focusing only on the revenue derived from controls and audits.

### **c. Reform of the HRM rules in the Revenue and Customs Agencies**

The applicable HRM rules have been amended to provide more autonomy to the Revenue and Customs Agencies. These reforms were approved after a long stagnate period, during which the agencies had to function without the coverage of a large number of senior management positions. More specifically, the Revenue and Customs Agencies can now establish intermediate positions between managers and staff. These positions cover areas where high-level expertise and technical knowledge is required and are available for staff members who have at least five years of experience. Access is based on an internal selection process that takes into account the performance evaluations of previous years. Holders of these positions may adopt certain administrative acts (which would otherwise be reserved to managers) and carry out some limited management functions. It is expected that this solution will allow the agencies to hire, retain and promote highly technical staff members. It will also ensure that the agencies can redefine their HR needs, reducing the number of managers and replacing them with a number of intermediate positions.

In addition, the agencies can now hire managers via public competitions based on qualifications and exams. Rather than being based only on the general competition to enter the public administration, those exams will also focus on technical issues of

relevance for the positions to be fulfilled. The general criteria are defined by a Decree of the Minister of Economy and Finance, jointly with the Minister for Public Administration, while the criteria are determined by the relevant agency. Up to 50% of the positions may be reserved for internal staff members that meet certain conditions. These changes are expected, in the broader context of the reform of the public administration, to allow the Revenue and Customs Agencies to target their selection process for managers, and ensure certain freedom in internal promotion policies.

### **d. Reorganisation of the Revenue Agency**

In parallel with the approval of the reform of the HRM rules, the Revenue Agency has undergone a major internal reorganisation. It is now organised in three macro-divisions, while other functions such as audits, legal affairs and legislative support report directly to the Commissioner. The new organisation include:

- The *taxpayers division* is structured based on the type of taxpayer, in order to meet the needs of different taxpayer and develop targeted actions. The type of taxpayer are: individuals, self-employed and non-commercial entities; small and medium-sized enterprises; large taxpayers and international. Each of these sections includes functions related to providing advice to taxpayers, risk analysis, and organising controls and audits.
- The *services division* focuses on front-office activities: these include designing and issuing the relevant forms, processing data, providing online services, cadastral and other real property related services, and managing relationships with intermediaries for mass-tax services.
- Finally, the *resources division* incorporates horizontal services such as IT, human resources management, financial control, planning and real estate management.

The reorganisation is aimed at streamlining activities, and at further benefitting from synergies derived from the merger with the Cadastral Agency. In line with international trends, it shifts from an organisation based solely on functions to one focused on taxpayers' type, thus favouring an integrated approach towards customers (see *2018 FTA Tax Administration Series*). The reorganisation is also functional to the overall change in approach, with the focus on cooperative compliance, dialogue and *ex ante* discussions rather than *ex post* controls and litigations. Last but not least, the new structure is also expected to ensure a better coordination between central and local offices.

## e. Reorganization of the Customs Agency

The Customs Agency is also evaluating an internal reorganisation, aimed at fully benefitting from the merger of the Customs Agency with the Monopoly authority. The process is ongoing and is expected to be finalised in late February 2018. The exercise is focusing on a review of the organization at the central and the territorial level. The aim is to strengthen the efficiency of the Agency.

## 2. Tax compliance

### a. A more holistic strategy

Italy has adopted a multi-faceted strategy to improve tax compliance. On the one hand, rules and operational changes have been implemented to fight evasion and fraud in sectors considered high-risk. On the other hand, efforts have been made to provide a simpler, more certain and predictable tax system. The efforts have focused on the implementation of Delegation Law N. 23 of 2014. In this line, transversal and strategic objective was to improve the relations with taxpayers, through a greater regulatory certainty, the improvement of procedural guarantees and the simplification of the obligations. In other words, the aim is to develop the preventive comparison between the tax authorities and the taxpayer, in order to achieve spontaneous fulfilment. At the same time, new rules and operational changes were introduced to combat tax evasion and fraud, in particular in the field of VAT.

### b. Tackling the VAT Gap

A number of measures have been enacted to tackle VAT fraud and evasion and increase voluntary tax compliance. These measures include:

- **E-invoicing:** As from 1 January 2019, any VAT invoice must be issued in electronic form, by using the same system already in use for the electronic invoicing of supplies made to public administrations. This will allow the Italian tax administration to cross-check the different transactions declared by taxpayers and monitor payments of VAT. The new obligation will apply to all domestic B2B and B2C supplies. Invoices issued in breach of the new rules will be considered void. It is estimated that the mandatory e-invoicing will generate more than 2 BEUR of additional revenue per year. For business sectors characterized by a high level of risk, the e-invoicing obligation will apply as of 1 July 2018. This is the case for supplies of gasoline and diesel oil



used as motor fuels, as well as supplies of services by subcontractors within the framework of works or services for the public administrations.

- **Specific provisions regarding VAT in the fuel sector:** *In addition to the early entry into force of the rules on e-invoicing mentioned above, some additional measures have been taken to tackle fraud in the fuel sector. These measures include the mandatory electronic storage and transmission of data regarding the supply of gasoline or diesel oil intended for use as motor fuels, the repeal of the so-called "fuel cards" together with the obligation to pay by trackable means in order to deduct the input VAT and claim a deduction for income tax purposes. Finally, the Revenue Agency and the Financial Police have designed a specific plan of controls and audits in this field.*
- **Split payment:** The regime was originally introduced for the State public administration and then further extended.
- **Incentives for the traceability of payments:** As from 1 January 2019, a reduction of the statute of limitation period (from five to three years) is granted to VAT taxable persons who ensure the traceability of payments exceeding Euro 500 made. The incentive does not apply to VAT taxable persons engaged in retail, unless they opt for the electronic storage and transmission of daily sales data.

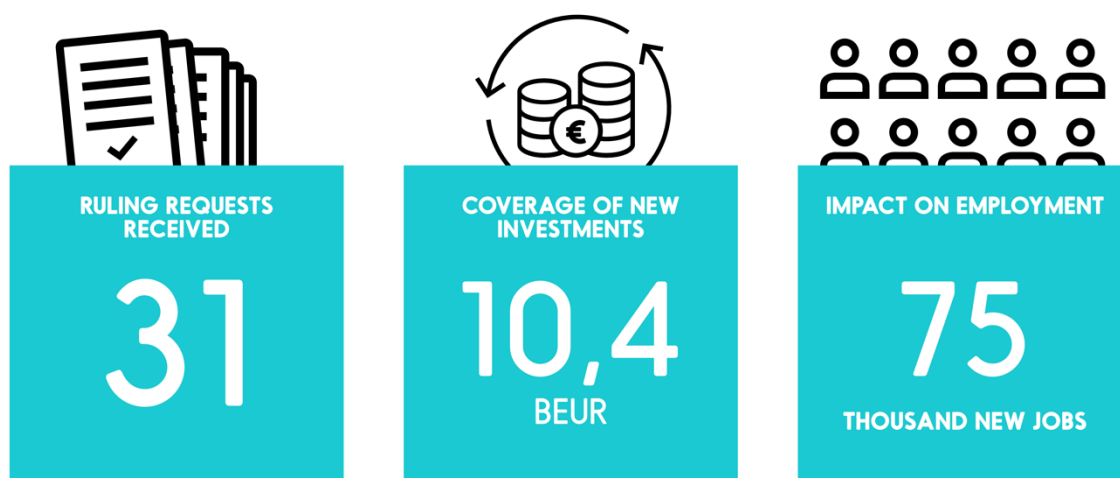
### d. Increased certainty and predictability for investors

Several changes have been introduced in the Italian tax system to provide additional certainty and predictability to investors. Some changes relate to measures that had already been introduced in the past, in order to make those simpler and more effective, while other measures have only been introduced recently. The important changes that include the recommendations of the OECD and IMF are outlined below:

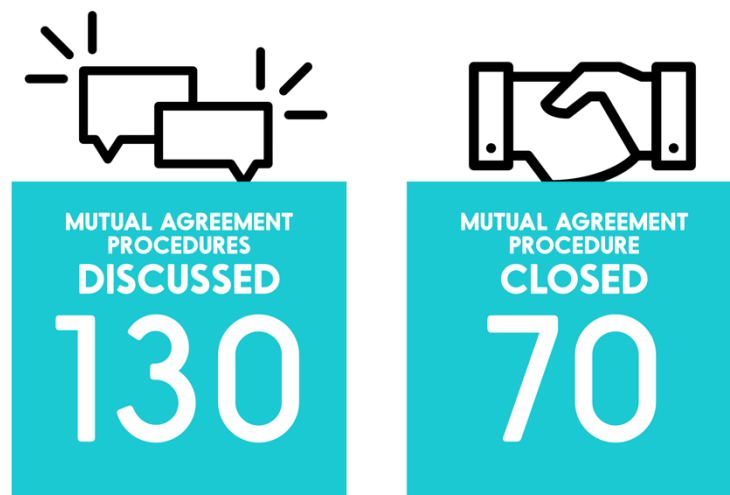
- **Transfer pricing:** *Italy introduced significant changes to the domestic provisions on transfer pricing. It repealed the reference to the "normal value" and expressly introduced the "arm's length principle". Importantly, it made easier to obtain a corresponding adjustment in Italy when a foreign tax administration has made an appropriate transfer pricing adjustment. A package of measures to implement the above changes has been issued for public consultation.*
- **Permanent establishment:** *The domestic definition of permanent establishment has been aligned to the latest OECD Model Tax Convention, which incorporates the work carried out in the course of the BEPS (Base*

Erosion and Profit Shifting) Project. In addition, non-resident enterprises meeting certain conditions can disclose the details of their structure to the Italian authorities and obtain an answer regarding the related tax consequences. In case a permanent establishment is considered to exist, any otherwise applicable sanction is avoided. Further, the introduction of a tax on the turnover derived from certain digital services has been postponed to 2019, in the wake of action at the international level.

- **Patent box:** Italy introduced significant changes to the recently enacted patent box legislation, chiefly to exclude trademarks from the assets that qualify for the incentive. The amendments are instrumental for making the legislation consistent with the OECD/G20 Nexus approach agreed upon in the context of Action 5 of the BEPS Project, and safeguards until 2021 the positions of those who had already submitted a request in this respect.
- **Large investments rulings:** it is now possible to obtain the opinion of the Revenue Agency on the tax consequences of a planned investment. Qualifying condition to apply for the ruling is that the investment amounts to at least 30 million Euros and presents a significant and long-lasting impact on employment levels, whether in terms of creation of new jobs or maintenance of existing ones. The reply shall be provided within 120 days from the request, is binding on the tax administration and determines the exclusive competence of the central office of the Revenue Agency for any issues related to it. The ruling is part of the broader efforts to increase cooperative compliance in Italy and is starting to bear significant fruits: the agency has issued 31 rulings (25 in 2017), covering investments for € 10,4 Billion Euros, with an impact on employment that exceeds 75 thousand jobs.



- **Effective resolution of international tax disputes:** *The competence on mutual agreement procedures to resolve double taxation has been allocated exclusively to the Revenue Agency as from 1 January 2017, with the Department of Finance in charge of mutual agreement procedures of an interpretive nature. The new organizational model has allowed for a more efficient use of the resources and made it possible to address a significant number of cases with foreign competent authorities. To ensure the attainment of this ambitious objective, the Agency was authorised to recruit additional staff with appropriate competences. Since this organisational structure was put in place, Italy has discussed more than 130 cases with foreign competent authorities, with about 70 of them already closed.*



#### e. Attraction of Human Capital and Creation of a Central HNWI Office

Italy has introduced a number of incentives aimed at attracting human capital. Skilled employees and self-employed, who establish their residence in Italy, after having been resident abroad for at least two years benefit from a 50% exemption on employment and self-employment income for five tax years. The incentive increases to 90% for researchers and teachers, in which case it lasts for four tax years. Finally, certain individuals who become Italian tax residents can opt for a yearly tax of € 100,000 on their foreign source income (while their Italian source income remains subject to ordinary taxation).

At the same time, a central office in charge of HNWI individuals has been set up. The office is in charge of mapping individuals with high net worth, carry out related risk-analyses, define strategies to ensure compliance with tax laws, and provide

appropriate services, including rulings, regarding the entitlement to the incentives to attract human capital.

### **3. Tax collection**

#### **a. Equitalia becomes Agenzia delle entrate - Riscossione (Collection Agency)**

The companies part of the Equitalia Group were first reorganized then been converted into a public economic entity, the Agenzia delle Entrate-Riscossione (hereinafter Collection Agency). The Collection Agency is under the supervision of the Ministry of Economy and Finance and is fully owned by, and instrumental to, the Revenue Agency. The Revenue Agency Commissioner is also the President of the Collection Agency and a member of its Management Committee. The new setting ensures coordination at the top, allows a more effective sharing of relevant information and databases, and provides greater operational flexibility.

#### **b. Rottamazione (settlement procedure) of tax debts**

In order to reduce the outstanding stock of tax debts, taxpayers have been provided with the possibility to settle their tax and social security debts. Taxpayers who have opted for the settlement do not pay penalties and late payment interest expenses while they have to pay in full any taxes and social security contributions, plus collection expenses, and any expenses for notification and possible execution. Such amounts can be paid by instalments (maximum 5 instalments). The settlement procedure has been used by around 1,5 million taxpayers in 2017, generating revenues for 6.5 BEUR, well above what had been forecasted upon introduction.

#### **c. New powers to the tax collection agency**

Certain new powers have been attributed to the newly formed Collection Agency. First, being an entity instrumental to the Revenue Agency, it is now able to access the information and databases of the latter. This makes it is easier to ascertain the tax debtors' actual financial situation and hence allow a more efficient use of Collection Agency's resources. For example, access to this information will allow a more precise exercise of the power to execute any seizure of bank accounts or of part of the salary received from the employer.

Further, while before any seizure of immovable property was subject to the value of the single asset, now it is stated that the threshold applies to all the immovable

property owned by the tax debtor. This eliminates the possibility for big evaders to splitting up the assets to get around the expropriation.

Finally, it has been reduced from 10,000 euro to 5,000 euro, the value in addition to which public administrations and companies with prevailing public participation, before making payments, must check whether the beneficiary has defaulted to the payment obligation. The default to the payment obligation is the notification of one or more tax debts for a total amount equal to at least that amount.

### D. CONCLUDING REMARKS

Italy has done a lot to improve its tax system in a relatively short time frame. In fact, several bold actions have been undertaken. These are all different components of a structural reform of the Italian tax administration and a cultural change of perception of the relationship between tax and taxpayer.

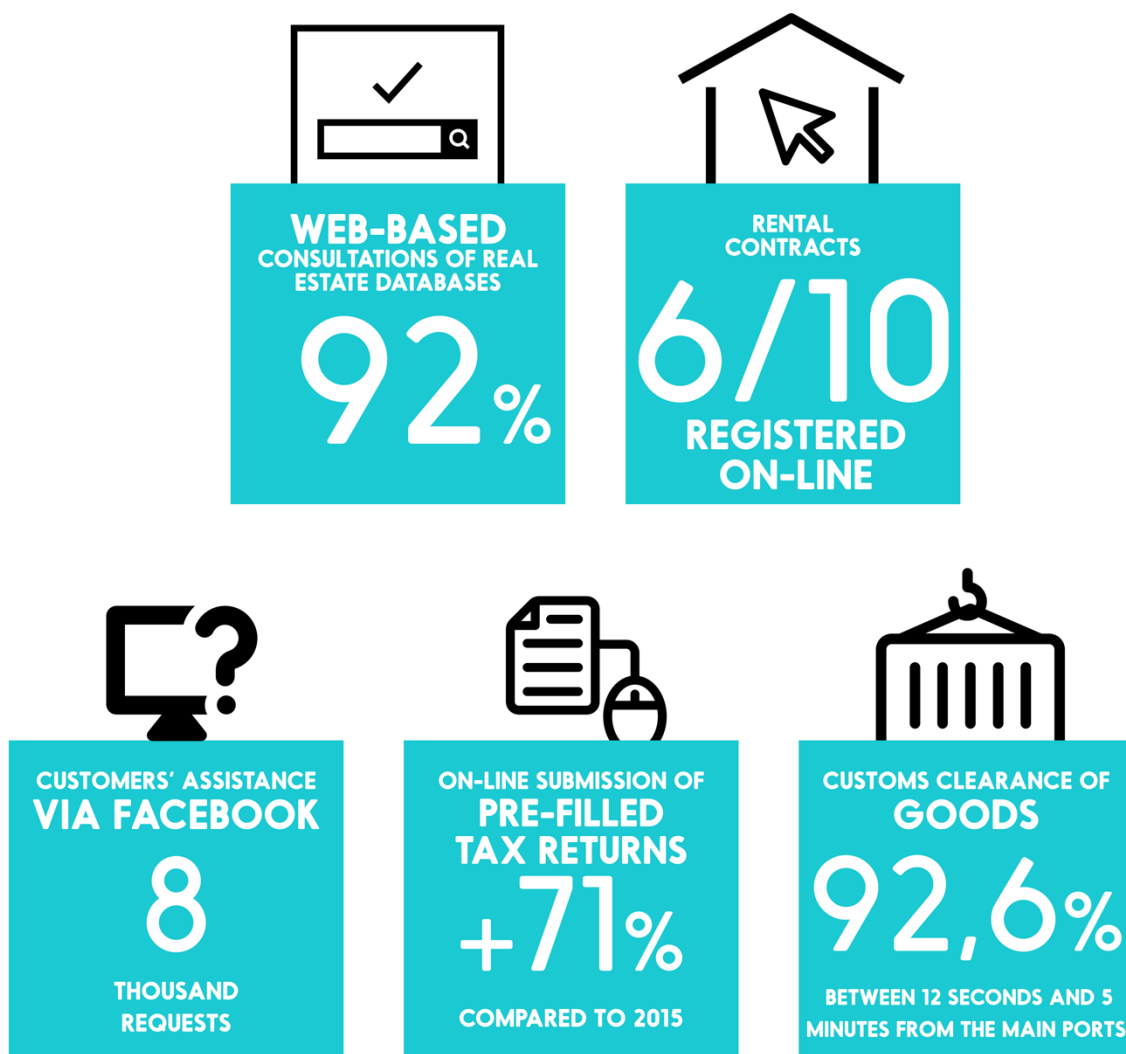
As with any structural reform, a proper evaluation is only possible over time and it is probably too early for a final judgement, but certainly it is safe to state that developments are moving in the right direction.

#### **Indexes**

- » *The FDI Confidence Index ranks Italy 13th in 2017, up from 20th in 2014.*
- » *Italy gained several positions in the "Paying Taxes" indicator of the World Bank (from a total tax rate of 62% to 48% with qualifiers).*
- » *In the Zew (University of Mannheim) Digital Tax Index, Italy has moved from the 20th to second place in the rankings for attractiveness*
- » *In the In the Trading Across the Border Index of the World Bank "Doing Business" Report 2018, Italy's gained the first position both in 2016 and 2017 (56th in 2014 and 37th in 2015)*
- » *The "Enabling Trade Index 2016" of the World Economic Forum ranks Italy to the first position in terms of time and costs for border movement and at 3rd place for customs services.*

Other important actions are currently under way. On top of these efforts, there is a major review of the digital tools used by the tax administration, providing more user-friendly services for taxpayers. Online services have been improved, as witnessed by the constant increase of users. For example, in 2017, 92% of all requests regarding the real estate registry have been filed electronically, and 6 out of 10 rental contracts have

been registered on-line. More than 8 thousand taxpayers have been assisted via the Revenue Agency Facebook channel. The number of taxpayers to whom the pre-filled tax return has been submitted increased by 71% (2,4 million taxpayers). Further, between 2016 and 2017, the Customs Agency has reduced the time for customs' clearance, such that 92,6% of those take place in between 12 seconds and 5 minutes (before the introduction of the e-file the average, it was 84,3%). This is chiefly thank to the digitalisation process that led to the introduction of the one-stop-shop and of the e-file, which have allowed for clearance to be provided in transit.







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