

# Changing the Italian Tax System

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Italy has embarked upon the challenging task of redesigning its tax system. The Act<sup>[1]</sup> of late November 2016 (hereinafter, “Act”) constitutes a best-practices example, or at least for our Country.

The above Act illustrates the national fiscal policy for the coming 3-year period, i.e., for 2017 – 2019, specifying the primary objectives and the guidelines for their pursuit. It is based on a previous ministerial Act regarding the political agenda for 2017, which prioritized

- tax simplification,
- fairness and efficiency in taxation,
- elimination of tax avoidance and evasion and
- tax authorities’ good governance.

It is hence fully endorsing the dominant worldwide trend underlying, among others, the BEPS Project and EU initiatives, such as the Anti-Tax Avoidance Directive (ATAD).

In 2016, Italy launched a particularly ambitious project for the renovation of its tax administration in terms of organization and functions. The ultimate vision is to create a tax system that is taxpayer- and growth-friendly, ensures the availability of high-end services to taxpayers, facilitates fulfillment of tax obligations and rewards compliance. The goal pursued is three-fold:

- reduction of costs,
- improvement of services,
- promotion of voluntary compliance.

Although all this may sound as mere wishful thinking, the aforesaid Act is clearly indicative of the fact that the above steps are viable and attainable.

Such action plan is based on three main pillars to achieve the envisaged goals, i.e.,

- governance and coordination,
- holistic strategy of compliance,
- fair and efficient taxation, as further analyzed below.

The first pillar includes actions to strengthen coordination and good governance of the Italian tax administration and thus secure optimal services and resource allocation, suitable to restore and stabilize taxpayers’ trust in the system.

An innovative step to this end is the establishment of the so-called “*tavolo permanente*” (i.e., permanent table). Such “*table*” shall bring together the various Tax Administration stakeholders e.g., the Deputy Minister for Finance, the Revenue Agency (*Agenzia delle Entrate*), the Finance Police (*Guardia di Finanza*) etc.

The idea behind it is quite clear: engagement of all parties to ensure the sharing of ideas, information, expertise and concerns, creation of synergies and added value that may derive therefrom, mutual monitoring, prompt reaction to developments.

In conclusion, awareness, consistency and synergies shall be key to success.

Another step, always within the first pillar, targets optimal organization or – in other words – better performance that costs less. This demands staff with advanced qualifications and hence, investment on its ongoing education is more than essential. In addition, cost-effective and transparent procedures need to be implemented and here lies one of the most significant contributions of the Italian crafters of the new tax system. Such procedures have the potential to instill renewed trust, not only into taxpayers in the tax system – but, most importantly, also into citizens in the State and Government. The picture would however remain incomplete without streamlined and transparent tax dispute resolution mechanisms. Its promotion has been duly considered in the Act and is totally in line with the provisions of the recently released EC Corporate Tax Reform Package as well as with the principles of BEPS Action 14 and the multilateral instrument.

Furthermore, the holistic strategy for compliance (second pillar) is envisaged to be implemented through, incentivization of taxpayers to voluntarily fulfill their tax obligations on the one hand, and on the other, minimization of tax audit cases. To this effect, the Act details the corresponding tasks of all four key players of the Italian Tax Administration (Ministry of Economy and Finance, Revenue Agency, Financial Police and Customs and Monopolies Agency).

Considering the three-fold goal of the renovation project stated above, managing to motivate taxpayers to voluntarily pay their taxes may well be the most prominent – albeit undoubtedly the most ambitious – step. It would imply at once less tax-related disputes, reduced need for audits, optimal resource allocation. The question is how best to motivate them.

Firstly, *cooperative compliance*, which has been strongly recommended by the OECD ever since 2013 – building on respective outcome of an earlier study of the Forum on Tax Administration (FTA), is nothing less than part of the existing national tax legislation since 2014. It needs to be better positioned in the Italian tax landscape through the implementation of a smooth access process. Similar is the case of other tax incentives, e.g., patent box or advanced ruling on new investments, that were recently introduced and therefore their practical application needs further development.

Secondly, attention is paid to the special needs of SMEs, entrepreneurs and liberal professionals. A priority need is the relief from an excessive administrative burden and is, beyond all doubt, crucial for the development of a national economy largely depending on this kind of activities.

Thirdly, an advanced analysis and exploitation of data already available to the tax authorities is targeted. A better analysis has the potential to remedy the reduced information that will be demanded from taxpayers, while providing tax authorities with a more thorough and objective understanding of taxpayers’ tax affairs.

Fourthly, as expected and following similar initiatives in other countries, such as the UK and Estonia, the Act provides for a dynamic introduction of online services, e.g., electronic invoicing, online communication of VAT operations in the Italian tax world.

Voluntary fulfillment by taxpayers shall be matched to targeted tax audits planned on the basis of taxpayers’ compliance risk. It is a well-designed measure meant to improve

- resource allocation through saving of expenses on controls that could not lead to disclosure of non-compliance in a first instance,
- audit-effectiveness through concentration of existing forces while
- fairly rewarding taxpayers with a so-called “*good tax story*,” since they will also enjoy relief from time- and cost-consuming tax audits.

The new audit policy necessitates of an advance evaluation of the compliance risk imposed on each taxpayer; such evaluation will allow an informed decision on which taxpayers *deserve* a more thorough investigation as to their *awareness* of their tax obligations. The envisaged effective evaluation shall, by definition require, the employment to any and all instruments available to the Italian Tax Authorities to obtain taxpayers’ information, including exchange of information agreements and cooperation with foreign authorities.

Finally, the third pillar refers to fair and efficient tax collection – historically, the oldest and most common “*headache*” of all tax systems. Essential to ensure tax revenues for the State, it is equally important in order to boost taxpayers’ confidence in the system. It suffices, in this respect, to consider that lack of tax revenue leads – with mathematical certitude – to tax increases, shifting the burden to complying taxpayers and hence literally destroying all efforts earlier described.

Consequently, the Act anticipates the enforcement of provisions among others

- to streamline and restructure tax collection in general
- to review tax collection agents’ roles and prerogatives, always with a view to promoting optimal resource allocation, improving tax collection and voluntary compliance.

From the above, it may be fairly concluded that the three key goals identified in the Act, i.e., reduction of tax administration costs, optimization of services offered to taxpayers and establishment of a tax system based on voluntary compliance and trust, are consistently pursued in all different actions included in the Act. Successful implementation of such actions is promising a brand new tax system in Italy, fair and efficient, made for taxpayers.

Setting ambitious – forward looking objectives, by identifying innovative actions to pursue them, is a commendable step in the right direction and should be welcomed indeed. Hopefully, the year 2019 will see this dynamic and optimistic vision turn into reality.