

SPRING 2015 REFORM BAROMETER - ITALY

		Q1 : the recommendation is	Q2 : Implementation on effort is :	Detailed comments
CSR 1	<p>Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the Stability and Growth Pact requirements, namely the debt reduction rule, based on the Commission services 2014 spring forecast and ensure progress towards the MTO. In 2015, significantly strengthen the budgetary strategy to ensure compliance with the debt reduction requirement and thus reaching the MTO. Thereafter, ensure that the general government debt is on a sufficiently downward path; carry out the ambitious privatisation plan; implement a growth-friendly fiscal adjustment based on the announced significant savings coming from a durable improvement of the efficiency and quality of public expenditure at all levels of government, while preserving growth-enhancing spending like R&D, innovation, education and essential infrastructure projects. Guarantee the independence and full operationalisation of the fiscal council as soon as possible and no later than September 2014, in time for the assessment of the 2015 Draft Budgetary Plan.</p>	<p>Contrary to Federation advise</p>	<p>Excellent/no further progress needed</p>	

<p>CSR 2</p>	<p>Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption. Ensure more effective environmental taxation, including in the area of excise duties, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work.</p>	<p>Important</p>	<p>Mixed</p>	<p>The Italian government moved important steps toward the implementation of the CSR No. 2; nonetheless, several key issues remain unsolved and some of them seem far from a swift solution. About the suggested tax shift from productive factors to consumption, property and environment, it is worth noting that a significant reduction of the labor tax wedge finally took place thanks to the Stability Law 2015 (Law 23 December 2014, No. 190). In particular, we consider positive the mechanisms envisaged to alleviate the burden of labor cost on enterprises, namely: the complete deductibility of labor cost of permanent employees from IRAP tax base and the three-year exemption from SSC for companies that hire new employees with permanent contracts. It seems also appropriate the stabilization of the so called "80 euro bonus" granted to employees with annual income up to 26,000 euro, even if the government did not assess the effectiveness of this incentive, as it should have done following the CSR. Despite of the positive actions described above, the requested tax shift is still far from its final goal since the tax pressure on productive factors others than labor remains relatively high due to increases in the recent past. On one hand, tax rates on financial income rose in 2014 from 20% to 26% (Law Decree 24 April 2014, No. 66) and various other measures affected the tax pressure on capital, i.e. the new rate for stamp duty on financial products introduced in 2014 (Law 27 December 2013, No. 147). On the other hand, taxation on consumption increased with two consecutive ordinary VAT rate increments (from 20% to 21% in 2011, and from 21% to 22% in 2013) but the revenues of these actions have been used to finance contingent economic policies and did not contribute to a rational reduction of the tax burden on productive factors. In the CSR the EU Council points out the opportunity to review the scope of tax expenditures, broadening the tax base, in particular on consumption; for these purposes, Article 4 of Law 11 March 2014, No. 23 (enabling law on taxation) provides a set of principles aimed to a general revision of the tax expenditures currently in force (including reduced VAT rates), nonetheless, by now with the enabling law deadline approaching there are still no legislative initiatives underway on this matter. With specific reference to the reduced VAT rates, we have already expressed our position and</p>
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			<p>concern, underlining the opportunity of a broad review but only if it is aimed to finance policies of reduction of the global tax burden for companies. Within the framework of the enabling law on taxation reform, three enhancing decrees have been adopted so far: one on the revision of taxation on tobacco production and consumption, one on the reform of the cadastral committees, and another one on the simplification of tax procedures. Work carried forward about the cadastral reform has a key-role in the revision of the local taxation, also for businesses immovable property, that became a major issue in recent years. In fact, tax burden on immovable property owned by companies increased steadily in recent years, also because of some unfair practices in tax assessments (The reference here is to the problem known as “the bolted machineries” that is the practice used by some local authorities of including in the cadastral value of industrial sheds also the economic value of large machineries located in the sheds and fixed to the ground – that is why “bolted” machineries – in this way the cadastral value, which is usually the tax base in real estate taxation, increases significantly). Situations such the one just described give the extent of how the legal certainty scenario is jeopardized and needs to be clarified and made more consistent (also in order to contrast misinterpretation by local authorities). Legal certainty is the core of the tax reform sketched in the enabling law and we think it should be addressed in a rapid and proper way; on this crucial topic, the government approved, on December, a scheme decree about legal certainty, tax penalties and cooperative compliance, but suddenly recalled it for a deeper analysis of some provisions. It would be definitely adopted before the enabling law deadline (i.e. 27th March), hence at this stage we are not able to fully evaluate the reform under this point of view. However, as the CSR correctly states, a fundamental step on the reform path is the simplification of tax procedures; in this frame, the government approved only one legislative decree (Legislative Decree 27 November 2014, No. 175) which provides for a set of useful actions, i.e. the introduction of a pre-filled tax return for individuals or a simplified VAT refunds procedure (refund procedures are improving but this is still a sore point, since Italy remains in the backward if compared to other EU countries). Even though the mentioned decree is a good start, it’s a well-known</p>
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				<p>fact that Italy is affected by a very pervasive bureaucracy related to taxation (as clearly shown also in the last comparison chart released by the World Bank - Doing Business 2015) therefore many other actions can be adopted to fully restore the efficiency and the predictability of the tax environment. For example in the field of VAT, Italian companies still suffer for a resounding violation of the neutrality principle, due to the fact that, on the basis of current legislation, it's not allowed to rectify VAT on receivables. The CSR emphasizes the role of the fight against tax evasion: unfortunately we lack adequate instruments to weigh up the real relevance of this phenomena and to deeply analyze its characteristics since the data available so far come from many different sources and frequently don't match each other. The urge of an official report has been stressed also in the enabling law, that called for a comprehensive work on this matter by the Ministry of Economics and Finance; this latter published, last year, a first provisional report on tax evasion and strategies to contrast it, but the measure of the enabling law has not been implemented yet. We are aware that the fight against evasion is a priority and has also a crucial importance in the context of public finances and country reputation, and we strongly endorse it, but it cannot justify actions that end up producing more uncertainty in the tax system, damaging competitiveness of businesses that play by the rules; in this regards, measures like the VAT reverse charge for mass retailers and the split payment mechanism, that the government is introducing through the Stability Law for 2015, can be considered major missteps.</p>
CSR 3	<p>As part of a wider effort to improve the efficiency of public administration, clarify competences at all levels of Government. Ensure better management of EU funds by taking decisive action to improve administrative capacity, transparency, evaluation and quality control both at national and regional level, especially in southern regions. Further enhance the effectiveness of anti-corruption measures, including by revising the statute of limitations by the end of 2014, and strengthening the powers of the national anti-corruption authority.</p>	Extremely important	Mixed	<p>Despite of the reforms that have been adopted within the civil justice (i.e. On-line Civil Trial), the majority of the measures related to the efficiency of the Public Administration have just been proposed but not yet implemented. The current legal framework of the administrative functions remains unsatisfactory. Some important steps forward have been taken with reference to the anti-corruption, in particular the introduction of the self-laundering crime and the full functioning of the new Anticorruption Italian Authority.</p>

	Monitor in a timely manner the impact of the reforms adopted to increase the efficiency of civil justice with a view to securing their effectiveness and adopting complementary action if needed.			
CSR 4	Reinforce the resilience of the banking sector and ensure its capacity to manage and dispose of impaired assets to revive lending to the real economy. Foster non-bank access to finance for firms, especially small and medium-sized businesses. Continue to promote and monitor efficient corporate governance practices in the whole banking sector, with particular attention to large cooperative banks ('banche popolari') and the role of foundations, with a view to improving the effectiveness of financial intermediation.	Extremely important	Mixed	First, not much has been done in the field of non-performing loans in the Italian bank balance sheets; some individual bank initiatives are being studied, in some cases with banks trying to work together, but always with no involvement by public authorities. Second, many important efforts have been made by the Government in the field of non-bank finance, namely with the Mini-bond and Aim-Mac initiatives and also the various successive interventions to stimulate the creation of the demand side of those markets, in particular targeting insurance companies and pension funds; some measures are still missing, mainly extending the activity of the Guarantee Fund to insurance companies and pension funds. Third, recently the Government is intervening, with a decree law that has now to be converted into law, on the big "Banche Popolari", in the right direction, mainly in the field of governance; we have still to see how this will work in practice, taking in mind that the important thing is that this helps unlocking credit to the real economy.
CSR 5	Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by	Extremely important	Satisfactory	

	<p>March 2015 and providing adequate care services. Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee. To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.</p>			
CSR 6	<p>Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce rates of early school leaving. Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. Create a national register of qualifications to ensure wide recognition of skills. Ensure that public funding better rewards the quality of higher education and research.</p>	Important	Satisfactory	<p>The CSR No. 6 emphasizes the role of the fight against school dropout (average 17% in Italy) with two main instruments: a new evaluation system for schools (in order to measure the effective performance of teachers and students) and a closer connection between school and work with more apprenticeship, more VET, more upper secondary technical schools (as indicated in the European Alliance for Apprenticeships, which, however, Italy has not adhered fully). These elements are part of the reform program "La Buona Scuola" launched by the Italian government on 3rd September 2014. Confindustria participated at the consultation presenting and publishing 100 proposals on 7th October 2014. The reform aims to innovate the educational system in its entirety.</p> <p>The main novelty of the document is the assumption of 148,000 teachers and the starting of meritocratic criteria for rewarding the best teachers not only according to length of service: this task can be realized with a new system of evaluation that the reform designs and finances. Among the measures about the connection between school and work very significant is the prevision of 600 hours of obligatory school-work training in the last three years of technical schools, as well as the beginning of experimentation of</p>

				apprenticeships in schools, business didactic, support for the participation of enterprises in school labs, investment on ITS (level 5b / 6 EQF). Significant also the devolution of more management powers to school principals. At the beginning of 2015 President Renzi announced that the reform will become law by February 28.
CSR 7	Approve the pending legislation or other equivalent measures aimed at simplifying the regulatory environment for businesses and citizens and address implementation gaps in existing legislation. Foster market opening and remove remaining barriers to, and restrictions on, competition in the professional and local public services, insurance, fuel distribution, retail and postal services sectors. Enhance the efficiency of public procurement, especially by streamlining procedures including through the better use of e-procurement, rationalising the central purchasing bodies and securing the proper application of pre- and post-award rules. In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December 2014.	Extremely important	No progress	No Relevant regulatory liberalization and simplification measures for businesses have been adopted. The majority of the past legislative measures are still unenforced. No legislative measures on competition have been adopted. There are no relevant development on central purchasing bodies and local public services.
CRS 8	Ensure swift and full operationalisation of the Transport Authority by September 2014. Approve the list of strategic infrastructure in the energy sector and enhance port management and connections with the hinterland.	Extremely important	Mixed	No Relevant regulatory liberalization and simplification measures for businesses have been adopted. The majority of the past legislative measures are still unenforced. No legislative measures on competition have been adopted. There are no relevant development on central purchasing bodies and local public services.