

The Aims of a Taxation Reform in Italy

1. - The drawbacks and deficiencies of the Italian fiscal system have now become such and so many that a structural revision on both the statutory and the organizational planes can seemingly no longer be deferred (1).

The only attempts after the Second World War to introduce some order into fiscal arrangements and to adapt them to the changed economic needs, date back to the time of the late Prof. Ezio Vanoni and relate to measures introduced when he was Minister of Finance, or taken subsequently on the basis of texts he had drafted. Substantially, three laws are concerned: No. 21 of January 11, 1951, which introduced a compulsory annual return and strengthened the analytical assessment; No. 603 of August 6, 1954, which introduced the tax on companies and bonds; and No. 1 of January 5, 1956 which regulated in a more organic way the assessment problem. Finally comes the Fiscal Code concerning direct taxes (Presidential Decree No. 645, of January 29, 1958), which establishes formal order among the manifold existing provisions, introducing for the first time several general principles.

Unfortunately Minister Vanoni's taxation policy — even if it cannot be described as a complete failure — has been able only to a limited degree to put into effect the principles that inspired it. The carrying out of the aforementioned provisions, which were, so to say, to have formed a single body, already had the fault of being too slow — the delay being attributable only in part to the opposition of certain particular interests — with too long intervals between

(1) Among the studies that warmly support a reform of taxation in Italy see. S. SCOCA, *Appunti per la riforma tributaria*, SELI, Rome 1954; S. STEVE, *Il sistema tributario e le sue prospettive*, Rizzoli, Rome, 1947; B. VISENTINI and C. COSCIANI, "Studi per la riforma tributaria", in the *Rassegna dell'Associazione bancaria italiana*, 15-30 November 1948; E. D'ALBERGO, *La riforma tributaria - Orientamenti per una revisione del sistema tributario italiano*, Zuffi, Bologna, 1949; C. COSCIANI, *La riforma tributaria - Analisi critica del sistema tributario italiano*, La Nuova Italia, Florence, 1950.

its various phases. Added to this were the administration's resistance to an application of the new principles — which in addition to being regulative were also to have been a moral factor — and the fact that the need was not realised of carrying out, at the same time as new statutes concerning assessment methods were being laid down, also a vast rationalization of labour techniques and a strengthening of the offices' operational structure (solely in the field of professional preparation was a good contribution made by establishing the central taxation school).

It was also a defect, from a more general point of view, to have conceived those measures as being separated from the rest of a future fundamental reform, a reform that was not even outlined, the result being that the taxpayer saw in the individual provisions only a means of increasing the yield from taxation, unconnected with any progress towards a more equitable fiscal order.

Subsequently the premature death of Prof. Vanoni, who with his well-balanced mind exercised a notable influence, the urgent needs of the Budget to meet the ever-rising expenditure, and, perhaps, new, diverse views of the ruling class, led to the initial directives being no longer complied with, and, indeed, many measures were taken which clearly clashed with them. In fact, not only was no structural reform undertaken, though all had hoped for it, and no move made towards reorganization of the offices, but preference was given not to the policy of a reduction of the rates as a means of combating evasions but to their continual increase without any advance preparation of the means necessary for checking evasions and the greater stimuli to evade the law. Nor was a solution found, in spite of many Bills, to the problem of the tax appeals courts, in the interest of the administration (to secure a rapid settlement of disputes) and in the interest of the taxpayer (to provide the greater guarantees that must be offered him). The problem presupposes that first the analytical assessment should be carried out on a wider scale.

The urgency and importance of a general reform is indicated by the fact that at the end of 1963, alongside the other two Ministerial Committees for economic planning and bureaucratic reform, a Committee was appointed to study taxation reform. After eight months work it submitted to the Minister an ample Progress Report from which several directives emerge clearly. We now summarize these in the aims and principal proposals formulated.

2. - The first aim of the reform must be to render the Italian taxation system clear and simple.

Its complexity today, so hotly deplored, derives from many circumstances:

(a) The difficulty of knowing the real rate of a tax because of the multiplicity of taxes, surtaxes and surcharges which overlap one another, often in confused fashion. Thus, for example, the legal national rate of a taxable income of 720,000 lire is 9 per cent in the case of general incomes (R.M., category B - income of an enterprise) and 4 per cent in the case of independent labour incomes (R.M., category C-1 - artisans' income). But when the revenue authorities, basing themselves on the taxpayer's return, proceed to assess the tax, those rates rise to far higher levels, so that the national rate loses all significance. For example, in Rome they rise respectively to 17.94 per cent and 10.66 per cent. The following table indicates the various surcharges:

	Cat. B	Cat. C-1 (artisans)
	(for every 100 taxable)	
Legal national tax	9.	4.
Provincial surcharge	1.7500	1.4000
Government administration tax	0.7500	0.7500
Industry, commerce, arts, professions	3.5000	2.8000
Municipal public assistance board (18.2.1941, No. 100)	0.7125	0.4100
Municipal public assistance board (14.12.1961, No. 1340)	0.7125	0.4100
Calabria surcharge (26.11.1955)	0.7125	0.4100
Tax collector's premium	0.7540	0.4779
Provincial tax collector's premium	0.0532	0.0288
Total	17.9447	10.6567

In addition to the taxes mentioned the taxpayer then has to pay the progressive tax on global personal income, together with the various relative surcharges (MPAB, pro-Calabria, collectors' premiums) as well as the family tax and the relative surcharges (as above), both of which are heavily but differently progressive.

What the taxpayer wants is that taxes should be immediately clear to him and not create any "financial illusion" by keeping

formal taxation rates low and then raising them, often to a substantial extent, by means of a host of surcharges.

From this point of view what is necessary is the conglomeration in a single tax of all the taxes and surtaxes and supplementary charges, no matter for what reason they are levied, leaving out of account the body to which they are due. It would then fall to the Government, after it had collected such a tax, to distribute it among the different tax-raising bodies by means of any scheme it considered best. In actual fact, this would signify the abolition of all the non-statal levies and the conglomeration of the various rates in one single rate.

(b) The difficulty of getting to know the various statutes that regulate the taxes. With the exception of the direct taxes' sector — where there is a recent codified text — all other taxes are regulated by a fundamental law that has subsequently been modified by a multitude of provisions, not a few of which are incorporated as particular regulations in laws that do not govern fiscal matters. Ascertainment of the legislative source can therefore often be carried out only by experts in the subject. This is why an extension of the unification of the legislative texts has become necessary, to make them include all the fiscal provisions, properly coordinated.

(c) The difficulties in interpreting the statutes, which help to create doubts as to how they should be applied. The tax laws, either because they are initiated by Parliament or because they are considerably amended by Parliament during the approval stage, are largely drafted by politicians and not by technicians. Often, too, after being discussed they are approved somewhat hastily by Parliament, without a careful examination of the technical meaning of the wording. Consequently there are frequent instances of synonymy (when the same matters are indicated by different words) or of homonymy (when different matters are indicated by the same words). This drawback can be overcome in one way only, compatibly with the sovereignty of Parliament: by empowering the executive power, in every case where a law is of some importance, to coordinate it with preceding laws, and to redraft periodically the codified texts of each tax. It has been remarked that by using computers one could better ensure the constant use of the same words to indicate always the same concept.

(d) Abuse of the Ministry of Finance's power to issue basic decisions; interpretative rulings, ministerial instructions and so on, which constitute a notable source of confusion for the less well informed. To enable the Italian system of fiscal laws to evolve following more systematic schemes, and to avoid privileged distinctions being made as the result of moves by pressure groups, it is necessary on the one hand to grant greater autonomy to the external sub-offices, and to submit ministerial rulings and instructions (and also the drafting of Bills) to a non-binding previous opinion of a collegiate body (say a Higher Council of Finance, whose members should consist of high-ranking officials and independent experts); and on the other hand to stimulate certain coding-decisions of the Courts, afterwards instructing the offices to follow these when interpreting the statutes.

(e) Finally, the more regulations are general in character the more they are simple and clear. If the pretence is to prevent at all costs the slightest incongruity, and to take into account by means of exceptions to the rule, so as to be scrupulously fair, all the manifold situations that can arise, then the regulations inevitably become complicated. The taxpayers want simple fiscal laws, but unfortunately each individual also demands that the law should be elastic and make an exception in his particular case, certainly worthy of attention. A decision must be made: either simple and clear regulations that are on the average just but in particular cases can cause certain inconveniences; or regulations that envisage every single case and contain many provisions for exceptions but are necessarily complicated and very detailed. It is impossible to have the two things at one and the same time. Personally I am in favour of clear regulations, without concessions and exceptions for anyone.

3. - The second aim to which taxation reform in Italy must be directed is progressivity of the fiscal system, also in conformity with art. 53 of the Italian Constitution. Unfortunately the lack of an accurate and careful inquiry into the incidence of the various direct and indirect taxes on the household budgets of the various classes of income recipients constitutes a serious gap in our taxation system, the result being that it is not known whether the global revenue is progressive or regressive, and in what measure. What can be stated is that in Italy the fiscal yield is mainly based on indirect taxes.

According to data given in the General report on the economic situation of the country (Part II, Table No. 95) in the Public Administration's consolidated account, tax receipts in 1962 were divided as follows:

	(millions of lire)
Taxes on income and property	1,565.0
Taxes on business	446.4
Taxes on the movement and exchange of goods or services	1,970.6
Consumption taxes	1,097.6
State lottery	61.5
Total	5,141.1

These are figures that do not say a great deal. What can be said is that a good part of the 1,565 milliard lire of direct taxes is attributable to taxes of an objective or predominantly objective character and therefore not progressive. This lessens — even if in just a first approximation — the probability that our fiscal system is truly progressive, or at least its degree of progressivity.

The fact remains that in the absence of an efficient progressive personal tax on global income, our taxation system has solved the problem of progressivity (at least in the sphere of objective taxes) indirectly by means of a very marked qualitative discrimination. As is known, especially after the interesting empirical investigations of Benini, if labour incomes are taxed at a rate lower than that applied to income from capital, the result, even if the two rates are proportional, is a certain progressivity, since the minor incomes are, on the average, labour incomes, while the capital incomes are, on the average, higher incomes. To give an example, today incomes from dependent labour are taxed with the general income tax (*imposta di R.M.*, category C-2), the global rate of which varies — according to the amount of the income — from 4.40 per cent to 9.20 per cent; the incomes under category A (pure capital) are instead taxed with a global rate of 31.3 per cent and those of category B (incomes of enterprises) with a global rate which — according to the amount to the income — varies from 17.9 per cent to 36 per cent without considering the company tax. It is a question, however, of a progressivity that holds good only for high averages and therefore cannot be regarded as wholly satisfactory.

By this I do not say that other reasons for the discrimination between labour income and incomes from capital cannot be found to justify the different fiscal treatment. The qualitative discrimination now under examination is based, in fact, also on the fact that the labour incomes are temporary incomes and the others are perpetual incomes, hence the necessity, in the case of the first, of saving, if they are to become homogeneous with the second; savings that give rise to an excess of taxation as is explained by the Mill-Einaudi theory of double taxation on saved income. Moreover, labour incomes are incomes that today imply a great effort and, since they give a lower net income than the others, call for lower taxation. But I am likewise convinced that if this necessity to apply indirectly also a quantitative discrimination did not exist, the qualitative discrimination could be contained within more moderate limits than the present ones if in Italy an effective progressive personal tax were to be introduced at last.

A first necessity derives from this premise: that of abolishing the present schedular taxes since they are essentially proportional, and of merging them in a single tax of a progressive personal character. This step would eliminate the present drawback caused by the tax on income from movable wealth, which levies on certain kinds of income (labour and enterprise incomes) a progressive rate on a different scale, and takes into account, for the purpose of determining the rate, only the income from movable property, thus creating obvious inequalities between one case and another.

Since, however, the importance of the personal tax on income cannot for a long time to come become a primary factor within the framework of our taxation system, progressivity must be effected by other ways as well, different from those for income tax.

The succession and gift tax, in the two parts of which it consists (tax on the net total inherited estate and tax on the quotas) today gives a relatively modest yield (55.6 milliard lire in the financial year 1961-62 out of a global national fiscal revenue of 4,260 milliards), in spite of what are high rates. Here the problem is essentially that of evasion. To combat this it would be necessary when assessing personal tax to check more carefully the changes upward and downward in property income sources, following over a space of time the variations in the taxpayer's property. Passages of a part of the property, especially movable property, from one person to another in order to avoid the future succession duty could

be revealed by this check on the incomes' return, since upward or downward changes in property income sources must be justified in some particular way. The net total inheritance tax, the abolition of which is favoured by a no means negligible current of public opinion, should in my opinion be retained, though the taxable minima might be raised (2). The reason for this is that it should be regarded as complementary to the consumption tax that was not paid during the testator's life on the income saved and transferred by inheritance. In the case of the part of the property received by inheritance and transferred in its turn by succession, the total inheritance tax is justified on the basis of a milder version of the Rignano scheme, by which properties of a dynastic character should be taxed repeatedly at a higher rate than those which are new and therefore of first transfer.

Several negative effects caused by income tax in connection with incentives to produce and work, certain inevitable imperfections inherent in the definition of taxable income, and various other reasons have led present-day commentators to re-evaluate in a certain sense indirect taxes. Undoubtedly the proposal put forward by Kaldor regarding the personal tax on expenditure is highly attractive at first sight. But, even leaving aside several considerations of a general character, it does not seem from a practical point of view that such a tax can today be introduced in Italy. It is therefore necessary to have recourse to other solutions. The best method seems to be that of instituting a single-stage tax on the last producer or on the wholesaler, that is, in the stage preceding the entry of the product into consumption, with discriminatory rates according to the place occupied by the item consumed in the household budget of the various classes of income recipients. In other words, the present yield from I.G.E. (sales or general turnover tax) would be partly shifted towards this new tax.

4. - The third aim of the reform should be to give to the Italian fiscal system a structure such as would make possible its use as an instrument of economic planning. For several decades past public finance has been increasingly transforming itself from a mere financial instrument for providing the community with several fundamental

(2) The possibility could also be examined of granting a tax rebate on a given sum, for direct line passages, in place of the taxable minimum.

services into an instrument of economic policy. Italy is now preparing to have an economic development plan which should also adjust several disequilibria that persist still today (between sectors, territories and incomes) and which the free forces of the market, in spite of the national income's notable rate of growth, are failing to eliminate, at least within a reasonable space of time. The taxation system cannot remain neutral but must be coordinated with other instruments for the purpose of achieving the aims that are to be established by the Plan. But to avoid frequent fundamental reforms of the fiscal system its structure must be open and flexible: *open* in the sense that it should offer to the Plan authorities a body of taxes that can be manipulated in various directions to achieve any aim of the Plan (manipulation of consumption and saving, incentives or the reverse for investment, territorial and functional redistribution of incomes, and so on); *flexible* in the sense that the desired effects on the national income should be immediate and important by making few revisions of rates and allowances. To this end the taxation system must be based on a few taxes of a fundamental character and on relatively moderate rates, to be levied, however, on the greatest possible taxable amount.

(a) In the first place the taxation system must not hamper economic development with obstacles arising exclusively from fiscal technique. In other words, all those structures that create distortions not demanded by planning and overburden costs of production to no purpose must be eliminated.

Particularly urgent is the problem of our multiple-stage sales tax (I.G.E.) which works in favour of the vertically concentrated enterprises and disturbs our trade primarily with the other E.E.C. countries because the compensation tax on imports and exports is computed on the average tax paid by the producer and not on the actual tax. The I.G.E., must be replaced by the valued-added tax, in conformity with the E.E.C. Committee's draft directive, a tax which from this point of view is more rational.

It is then necessary to abolish or reduce to their proper limits a multiplicity of taxes which constitute a burden on production costs but are refundable on exports. These include the registration tax (which ought to be converted into a true and proper type of fee, in addition to being a light tax on property transfers); the stamp duty (which should be trimmed down and substantially reduced);

the mortgage tax; the taxes on government concessions; the stamp tax on transport documents; the advertising tax (which should be reviewed from an economic point of view); and the manifold and heavy manufacturing and consumption taxes which should be brought back, within the limits technically possible, to true and proper taxes on consumption by the households as a whole. The loss in yield that would result from the hoped-for work of abolition or revision of the aforementioned taxes should be recovered by means of the two taxes to be introduced to replace the present I.G.E., that is, by the value-added tax at a uniform rate and without exemptions, and by the single-stage tax at discriminatory rates.

(b) In the second place the problem of fiscal exemptions and allowances must be thoroughly examined. If it should be necessary to rectify certain spontaneous market trends in order to attain the ends envisaged by the Plan, the fiscal instrument can be employed with some effectiveness, together with the other instruments (monetary and credit manipulation and so on) of economic policy. Incentives of a sectoral and territorial character can be introduced by a rational policy of exemptions. But we can have three types of exemptions.

The first kind enables production costs to be reduced. Such reductions or exemptions are connected with the tax levied on capital goods, the raw and semi-finished materials used in the production process. If they are to be effective, they should be restricted rather to the new enterprises that are established in the area to be developed, or, at most, to the production increases of the old enterprises. If they are instead granted indiscriminately, they cost the public finances more, without any corresponding advantage for the aims of the Plan. Such measures are more effective if they are temporary, not only in the sense that the new enterprise, or the increased production should enjoy the exemption or reduction only over a limited space of time (sufficient to lessen the initial disadvantages) so as to discourage the establishment of unsound enterprises, but also in the sense that it should not be possible to acquire the facilities in question after a determined date, so as not to create a mechanism that would encourage the continuous replacement of enterprises instead of their permanence on the market (since every enterprise established thanks to the exemption would find itself competing at a certain moment with new enterprises that were

being assisted by the same exemption, which the first enterprise would no longer enjoy).

A second group of exemptions would enable gross income to be increased. This is the case with the exemption from I.G.E., on sales made by enterprises situated in areas that need to receive aid. This kind of exemption enables the sacrifice made by the State to be measured exactly. While the first type works directly in favour of investments and indirectly of production, this second type favours production directly but not investments until after full employment of the plant. The most delicate point is that of discriminating between new and old production.

Finally, net income can be increased by exempting the new enterprises from income tax. This particular measure is largely adopted in Italy, but its effectiveness is not commensurate with the sacrifice made by the State. Its influence, in fact, increases with the increase of income prospects and rewards primarily those enterprises which, by making notable profits, find also sufficient incentives to take root quite apart from the exemptions offered.

That having been said, it is now generally recognized in Italy that the problem of fiscal exemptions as a stimulus to production should be closely reexamined, so as to restrict them to those cases that prove themselves really useful, because, too, as the sphere of exemptions gradually widens, their effects diminish. Once the aims of the Plan and the instruments to be employed for their attainment have been decided, the exemptions now in force ought, in principle, to be abolished and restricted to those adapted to the instruments mentioned.

(c) In connection with the manipulation of the propensity to consumption and saving, the existence of a broadly based tax on consumption seems necessary. Once again the reference is to a value-added tax. An increase or decrease of the rate of such a tax allows the collectivity's consumption propensity to be reduced or stimulated. Of course, no illusion must be entertained that this measure is 100 per cent effective. If we want to reduce consumption by 5 per cent, then a tax exceeding 5 per cent is necessary, since the more well-to-do classes will provide for payment of the tax in a more or less consistent measure, not by a contraction of consumption but by a reduction of savings. For those classes, in fact, the way of using income to satisfy needs is quite as set as it is for the less well-to-do classes, even though for radically different

reasons. And in the case of the latter classes, a tax which reduces their purchasing power can, where the trade unions are strongly organized, give rise to wage increases, directed to maintaining their purchasing power unaltered to the greatest possible extent.

The personal progressive income tax can be used, by means of manipulation of the rates affecting the higher incomes, to influence the propensity to save.

The company tax, since it is based on the income produced and not on capital or on a part of the income produced, as happens at present under our taxation system, represents an instrument for manipulating the propensity to save in that by applying discrimination to the rate according to the use made by a company of income (that is, distributed income or income placed to reserve), it stimulates allotment to the shareholders of a greater or lesser percentage of the income produced. And while the income set aside by the companies can be regarded wholly as an increase of savings, in the case of the part assigned to the shareholders this increase occurs only to the extent of their propensity to save, which is less than unity.

In the final analysis, it seems that in order to attain the ends indicated, our taxation system must include a personal income tax, a company tax and a value-added tax.

(d) The plan's policy cannot leave out of consideration the question of consumption. Particularly in a country where an appreciable degree of income concentration exists and which comes into constant contact with countries having a higher per capita income, distortions are created by demonstration effects. The less well-to-do and the middle classes have a tendency, that is, to reduce and even to relinquish certain fundamental forms of consumption (healthy dwellings, medical care, provision for old age, vocational training) if only to meet other needs the satisfaction of which leads to a higher social status. Thus, first thought is given to an automobile, to touring (in the case of the less well-to-do classes, to smart clothes) rather than to a healthy and comfortable dwelling and to thrift (and to even a rational diet in the case of the less well-to-do classes). Moreover, the State is urged to take the place of private enterprise, to produce those goods that the market economy does not offer because the demand is insufficient, and to place them at the disposal of the collectivity free of cost. Now, if the lack of demand for certain fundamental goods is caused by a too low individual income,

the State, by filling the gap, performs one of its essential functions; but if that lack is due to a distortion of consumer demand, the State must intervene to eliminate the distortion. In that case a consumption policy coordinated for such a purpose — that is, to keep within proper limits, by reducing the demonstration effects, the demand for goods suitable to meet exclusively demands dictated by the wish to keep up appearances socially — cannot fail to involve fiscal policy as well.

When the contribution to the Italian Budget of the various manufacturing and consumption taxes is examined, serious doubts can arise whether, in choosing the items to be taxed and the rate of taxation, adequate attention has been paid to economic considerations with the object of establishing a consumption policy, and whether those responsible have not, instead, restricted themselves exclusively to considerations of fiscal and not even, I would say, technical practicability. Consider, for instance, the following items and the importance of the yield they provide (in millions of lire in the 1961-62 Budget) in taxation: mineral oils, 500; sugar, 68; coffee, 54; yarn, 32; gas and electricity, 29; spirits, 25; beer, 15; incondensable gas, 15; methane gas, 6; cocoa, 3; margarine, 2; electric lamps, 2; seed oils, 1; maltose glucose, 0.7; coffee substitutes, 0.7. These are figures that tell us very little, and of far greater significance would be a comparison between the incidence rates on the prices of these goods. They suffice, however, to show that the taxes on items of family consumption ought to be revised in such a way as to take proper account both of the importance of the outlay as part of the household budget in relation to the income level, and of the aims of the consumption policy pursued.

This is yet another confirmation of the need to introduce a single-stage sales tax on the last producer or, better still, on the wholesaler, a tax that should merge part of the present I.G.E. and the current excise taxes in a single-stage tax with discriminatory rates according to criteria that are not exclusively fiscal but include consumption policy as well. Of course, certain technical forms of assessment which have given good results in the case of excise taxes can be maintained for a number of products; but one should go no farther than the maintenance of the mere assessment and method of collecting the tax.

(e) Since a planned economy must also set itself the aim of a stable national income, our taxation system should be modelled in

such a way as to incorporate, to the utmost possible extent, automatic stabilizers. Hence the need for a sound progressive tax; the advisability of taxing capital gains immediately they take place; the necessity to shorten to the utmost possible extent the interval between the payment of taxes and the production of income (the introduction of a PAYE system should be examined, at least as far as incomes from labour are concerned), to extend the system of deductions at source (as payment on account) to taxes that are awaiting a definite settlement, to shorten the terms of the income return, and so on.

Another necessity, affecting a wider sphere, is closer coordination between State finances and local finances, so as to prevent any economic and financial policy directives issued by the State being annulled or undermined by a contradictory policy of local bodies. This involves the need to reduce, if not eliminate, the taxation powers of such bodies, which should base their finances essentially on contributions from the State Budget and a share of national taxes.

5. - The fourth aim of a taxation reform is to give our system the utmost elasticity, that is, to enable it to exercise a prompt and substantial influence on the national economy and on the yield from taxation, also by slight adjustments to the fiscal system. Here arises again the problem of what can be termed the "legal erosion" of the base of taxation by means of a multiplicity of exemptions, reductions, exceptions, special systems, unjustified deductions and the like, which seriously reduce the taxable base, making it necessary to raise the rates in order to obtain a satisfactory yield, thus creating an anelastic factor of the utmost importance. Another problem that again emerges is that of evasion, which in the case of several taxes presents disturbing features from the point of view not only of fairness but of the distortion of competition it creates between one enterprise and another. The fact is that taxation rates have today risen to such a level that every further increase meets powerful obstacles in the shape of both the negative economic effects of the tax and the ever greater stimulus given to evasion. Hence the increased yield from a tax is today always proportionately, and to a consistent degree, below the corresponding increase of the tax rate.

A drastic elimination of those fiscal burdens that have no well-founded and objective economic and social justification, and an

energetic battle against evasion are the two instruments that can improve and widen our taxation system and allow of rate reductions without sacrificing the yield, thus providing the system with the necessary elasticity.

6. - When conclusions are drawn from the considerations that we have developed, the following directives emerge, based on figures relating to the 1961-62 Budget and on rates that are indicated only by way of illustration, without any claim to exactitude, to provide which would necessitate long and patient surveys.

(a) The present income taxes on the land, buildings and movable wealth (total yield of these taxes is 590 milliard lire), the complementary income tax (93 milliards), the local surcharges (177 milliards) and various other surcharges (150 milliards), the municipal family tax and that on rental values (96 milliards) should all be abolished and replaced by a single tax on the total income of physical persons, the structure of which should be on the lines of that of the present complementary tax, and by an ordinary tax on net wealth, which should absorb also a part of the present yield from the registration tax (133 milliards).

The taxable minima and the rates of the new single tax on global income of physical persons should have a trend similar to that of the present global incidence of all the direct imposts (tax, surtax, surcharges, etc.) on the income from dependent labour (category C.2 of the movable wealth tax). Such a global real rate for a taxpayer having three persons to support works out today roughly as follows:

Net income	Global rate %	Net income	Global rate %
300,000	0	8,000,000	25.14
400,000	1.76	10,000,000	28.22
500,000	2.28	20,000,000	36.20
750,000	4.19	50,000,000	43.37
1,000,000	8.65	100,000,000	50.04
2,000,000	11.61	500,000,000	76.55
4,000,000	16.13	750,000,000	83.67

The maximum rate in the case of the new single income tax could be fixed at 50 per cent on an income of 500,000 million lire; an

adequate reduction should be made of the rates relating to the minor groups. With rates thus made more reasonable, it could be hoped that within a brief period the fall in the yield might be largely compensated by the effects of the reduction in evasions and exemptions, so as to secure to the State the amount today collected by means of a multiplicity of taxes.

(b) To maintain the present difference between global rates of the various taxes that are levied on incomes from dependent labour and those of incomes from capital, an ordinary tax on net wealth should be introduced, with an objective base and a uniform rate, on the lines of that which existed in the period 1940-47. From several surveys it could be assumed as an hypothesis that at present there is an average discrimination between incomes from labour and incomes from capital of 15 per cent. Supposing there is an average yield of 5 per cent, this would amount to the introduction of a tax on net wealth with a rate of 0.75 per cent and a taxable minimum of 2,000,000 lire (it would be better if no taxable minimum were granted but a tax allowance of 15,000 lire made to taxpayers). The yield from such a tax could be about 260 milliard lire. This would bring the maximum rate of income tax for the two imposts, one based directly on income, the other on net wealth, to 65 per cent, since to keep constant the degree of discrimination between incomes from labour and from capital, the tax on net wealth should not be deductible from income tax.

(c) A tax, complementary to income tax, should be introduced on increases in net wealth value, with a rate varying according to the time over which the increment has taken place and to the percentage increase in value.

(d) The company tax (yield 155 milliard lire) should be levied on income produced by companies, with a rate of 36 per cent. The income distributed would contribute to forming the overall income of the shareholders for the purpose of the single progressive personal income tax they would have to pay. Of this 36 per cent (the rate, let us repeat, is given purely as an illustration), 21 per cent should be considered as a payment on account of the personal tax of the single-stage tax and therefore be compulsorily withheld when profits are distributed, in any form whatsoever, to the shareholders, who would reckon it as a deduction from the personal tax on total income for which they were liable. In this way, contrary to what

happens with the present dividend withholding tax, the company would advance to the Treasury the 21 per cent withheld at source for the whole of the time that the profits remain set aside.

If the total burden is considered, the companies would pay altogether, in addition to the 36 per cent above mentioned (15 per cent of which is chargeable to them, while the difference of 21 per cent is an advance on behalf of the shareholders), also the ordinary tax on net wealth of 0.75 per cent (a presumed average incidence of the 15 per cent on income); this therefore amounts to a total of 51 per cent, of which 30 per cent would be chargeable to them. This 30 per cent payable by the companies corresponds to the greater burden that their income bears today in comparison with the other incomes, and it consists of the 15 per cent company tax and the 15 per cent charged by way of qualitative discrimination of income.

(e) There remains the indirect taxes' sector.

The present personal sales tax (a multiple stage tax) (I.G.E.) should be abolished and replaced by a value-added tax that would be paid by all except the retailer, and by a single-stage tax on consumption to be paid by the last trader preceding the retailer.

The value-added tax should have, roughly, a rate of 7-8 per cent, and the single-stage tax an average rate of 4 per cent. The total of these two taxes should ensure that the present yield from the I.G.E., would be covered. The average rate of the two taxes should be gradually raised to compensate for the lower yield resulting from reform of the excise taxes and the tax on business to which reference has been made.

7. - A structural reform of this magnitude necessitates above all a strictly unitary outlook, which should take an all-embracing view of the problem, considering it from the standpoint of the taxpayer. It is essential, that is, to base the taxation system on the idea that the tax-levying body is one and one alone; only after its lines have been laid down will the problem be tackled of how revenue is to be distributed among the various tax-raising bodies and which source of revenue is best suited to each of them. This distribution must be purely a technical problem: it must not — in the case of a country like Italy with its unitary structure — give rise to questions of fiscal autonomies and supremacies among the minor authorities. First and foremost the Italian taxpayer needs to be given

a minimum of certainty in the taxation sphere; a certainty that is undermined when whatever is assessable is subjected to autonomous and separate taxes by different bodies which employ differing techniques and policies.

Moreover a reform of the magnitude here envisaged requires a careful, cautious study of the stages by which it is to be applied, for it is impossible to carry out a rearrangement of all taxes in one operation.

Certainly absolute priority must be given to reorganization of the structures and jurisdictions of the offices, to the strengthening of the facilities at their disposal, to the mechanization and modernization of working methods, and to staff technical training. Simultaneously the assessment procedure must be rendered more efficient, from the taxpayer's return to the powers of the offices, the taxpayer's formal obligations (primarily with the object of making known and rendering stricter the book-keeping system), the tax appeals court, and fiscal penalties.

The second stage could begin with direct taxes, which, after all, involve the least risk of losses in the fiscal yield for the public Budget.

The third stage should cover indirect taxes. First would come the replacement of the I.G.E. by two taxes — the value-added tax and the single-stage tax in the phase preceding retail sales. Subsequently there should be a gradual incorporation in those taxes of the other taxes of today that are levied on business transactions or certain production or certain consumption.

The plan thus outlined implies one notable consequence: that until the reform has been fully completed, it will not be possible to rely on a substantial increase in the taxation burden; the increase in the taxation yield can come, that is, only after a rise in the national income or after its different assessment, while the yield resulting from reduction of exemptions and evasions will have to be ear-marked for rate reduction. If a different policy were to be followed by attempting to obtain through the fiscal reform an immediate increase in yield, its results would be irremediably compromised. It must not be forgotten that taxation reform too, if it is to be of a structural character, has to be paid for; and this cost consists of a fall in yield when the reform is first introduced. The ruling class will show its wisdom by accepting this decline calmly, without taking ill-advised measures but by endeavouring to remedy

the situation through a tenacious, slow and silent effort aimed at increasing the efficiency of the public administration.

Will our political leaders choose a similar course, one that is truly constructive and on which a favourable judgment can be passed only after a long period? Or will they prefer the present course which is marked by a confused and disjointed treatment of taxation questions? These are the only terms, in my opinion, in which the problem of taxation reform in Italy can be posited; a problem, in the final analysis, of the maturity of a ruling class.

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