

Italian Tax Policy

by
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The Situation after the Armistice.

1. — Since before the war the Italian tax system has been under considerable pressure to supply the Treasury with the ever-increasing sums demanded by emergency needs. Forced as it was to immediately meet these needs, always of a highly urgent nature, the revenue authorities never had time to prepare organic and sound taxation measures, the yield of which is necessarily spread over a period of time after a series of preparatory operations. They were continually compelled to sacrifice the rationalization of tax measures and the equitable distribution of the tax burden for the sake of "hurrying up". Thus (as occurs in almost all wartime and emergency finances) the Italian tax system became gradually incrustated or piled up with new taxes or amendments to old taxes not always consistent with the pre-existing system and which in the long run caused a number of troubles not easily eliminated.

The situation deteriorated fearfully after the Armistice signed by Italy with the United Nations. The country became subjected to two different authorities: the illegal government in the North and the legitimate government in the South, each of which took its own financial measures, the provisions enacted by the legitimate government being subsequently extended, often after considerable delay, to the provinces under Allied jurisdiction. Thus two different systems came into being, giving rise to considerable legal and practical complications when the peninsula was unified, as the legitimate government held null and void the legislation enacted by the Northern Government.

At the same time the far-reaching changes accompanying the fall of the Fascist regime to-

gether with the course of military operations and the phase of economic-administrative collapse caused a real crisis in State authority, which could not but have repercussions on the tax administration, thoroughly disorganizing it. The necessary work of reorganization was faced with many obstacles: difficulties in replacing damaged financial buildings, in rebuilding destroyed archives, because of lack of suitable accommodations in carrying out necessary transfers of personnel, in supplying the offices with the most elementary working facilities, and in appointing new capable officials to take the place of those dismissed for political reasons.

This grave functional decline occurred just at the moment when complex and radical changes were taking place in the domestic market, a phase in which efficiency was indispensable in tax administration. The post-Armistice situation in this field is by now well known. The incomes of the individual taxpayers had been profoundly disrupted; the activity of many sectors, because of heavy damages by air raids and war activity, had ceased either totally or to such an extent as to seriously affect their business efficiency; the disruption of land and sea transport had resulted in a considerable unbalance in prices and made it impossible to level them through a nationwide distribution of products; the lack of raw materials and electric power was holding up production in many areas and industrial sectors; the shortage of food products resulted in exceptionally high profits for many types of cultivation; finally, all those who through favorable circumstances managed to produce the commodities required by consumers, even with rudimentary equipment and at high cost, were rapidly making

high profits. On top of this economic disruption a considerable and persistent inflationary process had set in, progressively raising prices to a level which today has reached 40 to 50 times the pre-war level. This inflation, operating in such a chaotic context, where price controls although still existing *de jure* had practically ceased to function save in a few specific sectors, created the most unthinkable and unprecedented unbalances and a true revolution in the real and nominal incomes of the individual economic operators. New income recipients and new firms appeared, some merely speculative, others based on sound foundations; old income recipients and firms were either washed away

factors encouraged heavy fraudulent evasions, chiefly in indirect taxes and especially in the turnover tax, which is one of the pillars of the Italian fiscal system.

2. — The consequences resulting from the situation during the critical period outlined above are obvious: a) very considerable reduction in tax "pressure" on the population despite the very large increases in tax rates; b) an appreciable unbalance in the distribution of the tax burden among the various categories of taxpayers.

State revenues, in fact, increased as follows (in millions of lire):

Year	Tax Revenue	Index Number of Wholesale Prices (a)	Revenue Corrected for Price Level
1938-39 (1939)	27,576	100.00	27,576
1939-40 (1939)	32,350	104.32	31,010
1940-41 (1940)	34,234	121.69	28,132
1941-42 (1941)	41,224	135.80	30,356
1942-43 (1942)	48,884	152.57	32,040
1943-44 (1943)	51,704	218.86	22,542
1944-45 (1944)	60,443	858.21	7,055
1945-46 (1945)	249,318	2,059.70	120,500
1946-47 (1946)	255,902 (b)	2,544.25	100,580
1947-48 (1947)	520,000 (c)	4,536.00 (d)	114,654

(a) 1938 prices = 100. The index numbers refer to the calendar years in which the financial years begin. Central Institute of Statistics, *Bollettino dei prezzi*, n. 1.

(b) Estimates revised as of 30 April 1947.

(c) Estimated.

(d) As of April 1946.

by the storm or saw their economic situation permanently or temporarily compromised.

The Revenue Administration in the early period found it absolutely impossible to cope with the complicated work required to identify the new taxpayers or to ascertain the changed levels of the old ones, whose income had almost always nominally increased (in proportions which, naturally, varied from taxpayer to taxpayer), although real value had been heavily curtailed; revisions by the Administration, who could expect no practical cooperation from the taxpayer, were continually necessary. The lowering of taxpayer morality, a certain leniency displayed by revenue officials laboring under all kinds of difficulties and problems, a considerable uncertainty as to the controls on commodity distribution and prices — all these

The actual increase in tax revenue, expressed in monetary terms, is, as can be seen, extremely slow during the critical 1944-45 financial year. Subsequently, the increase becomes faster: in 1945-46 revenue is 150% higher than in 1944-45; and in 1946-47, 70% higher than in 1945-46. Estimates for 1947-48 arrive at a 520 milliard revenue, but this figure is quite likely to materialize at a considerably higher level so that it will mark more than a 100% increase over 1946-47 revenue. This means that only since 1945-46, and practically, only since 1946, has the Revenue Administration been able to remove some of the causes for the failure of tax yields to adjust to the changed economic and financial situation of the country.

These considerations may be better under-

stood by comparing total tax yield (state, municipal, and provincial) with national income. Unfortunately the estimates of the Italian national income have always left much to be desired due to lack of reliable census and statistical data. Since 1943, the total lack of statistical surveys has made the solution of this problem even more difficult.

For the national income in 1938 we can accept the figure of 116 milliard lire calculated by Prof. Vinci. The national income for 1945 in real terms may be calculated as 66.4% (1) of the 1938 income, but its monetary size, as a result of devaluation of the lira, would be 2060% of the 1938 level. This leads to an estimate of the 1945 Italian national income of 1,586 milliard lire. Assuming that in 1946 the national income, in real terms, rose to 68% of its 1938 level, and that the price level went up by an average of 2544%, the national income for 1946 can be taken as 2,000 milliard lire. For 1947, it can be estimated that the national income, in real terms, will equal 70% of the 1938 level, and that the price level (based on the trends of the first few months of the current year) will be 4500% of 1938. Should these assumptions prove true in 1947, the national income will total 3,654 milliard lire.

The results would be as shown in the following table (in milliard lire):

Calendar Year	National Income	State
1938	116	24.5
1945	1,586	96.3
1946	2,000	217.0
1947	3,654	350.0 (a)

(a) Based on the yield of the first half year with allowance made for probable increase in the second half.

As unfair as the above figures may be in view of the rough approximation method followed, what in any case they render evident is the unmistakable breakdown in taxation pressure, a breakdown which in 1944 must have been even more appreciable than in 1945, and which the present efforts of the Revenue Administration are remedying with already noteworthy success.

I have pointed out elsewhere (2) that this phenomenon was accompanied by:

— a widespread evasion, both legal and illegal, by income receivers of their direct tax assessments so that the percentage of national income actually assessed by the Revenue Administration for the levying of property and income tax, especially in 1945, went down to a negligible level;

— a legal, i. e. merely formal, tax pressure strongly disequibrated between types of income, and brought up to such high levels as to be obviously inconsistent with the average tax pressures calculated above.

In fact, summing the rates of the various taxes levied on the same income we obtain the following highly significant table (3):

Source of Income	Nominal legal tax pressure (January 1947)
Earnings	
a) Salaries	4.20%
b) Wages	9.95%
Professions	25.54%
Mixed	
a) Individual enterprises	45.99%
b) Corporate bodies	63.24%
Land	50.26%
Buildings	86.48%
Investment of Capital	43.45%

Tax Receipts	Index of Tax Pressure	
	Local	Total
5.3	29.8	25.6%
13.4	109.7	6.9%
33.3	250.3*	12.5%
60.0 (b)	410.0	11.8%

(b) Estimated.

The distribution of tax burdens has worsened, not only as between the several categories of incomes but also as between taxpayers with the same amount of the overall incomes within the same categories.

Annuario di Statistica, February 1946, of the Central Institute of Statistics, Rome.

(2) C. COSCIANI, *La pressione tributaria globale in Italia* (Tax Pressure in Italy), in *Rivista Bancaria*, December 1946.

(3) C. COSCIANI, *La pressione tributaria legale delle imposte dirette nel 1947* (The Legal Pressure of Direct Taxes in 1947), in *Congiuntura Economica*, March 1947.

The higher flexibility of indirect taxes, which can more closely follow the movement of prices, has caused a considerable increase in the indirect taxation of consumption. While in the years immediately preceding the war 64% of the total taxes was yielded by taxes on consumption and 34% by taxes on income, in 1945-46 taxation on consumption yielded 72 to 73% of the total. If one bears in mind that in the Italian Revenue system consumption taxes are regressive, it can be stated that there was a worsening in the distribution of tax burdens. The tax authorities, substantially, have taken advantage of the upward movement of prices by adding the tax burden on to it, making it less obvious to the taxpayer.

This markedly regressive character of our taxation is not corrected by the application of personal taxes, since our two progressive personal taxes, the general income tax on total income (*imposta complementare*) and the inheritance and gift tax, have yielded only 7 to 8% of total yield, a percentage unchanged since before the war.

From a social point of view the distribution of tax burdens has improved in only one way: the total amount of direct taxes levied on unearned incomes has increased by a much larger percentage than the total amount of direct taxes levied on earned incomes. This means that the wealthier persons, whose total income consists mostly of capital dividends, are paying a tax proportionally higher than that paid by the lower brackets, who enjoy only an earned income. This consideration becomes of foremost importance in the second half of 1947 with the application of the "*imposta straordinaria sul patrimonio*" (capital levy) which, as will be mentioned later on, has a very high impact on capital incomes. While this improves the distribution of tax burdens among the various categories of taxpayers, we cannot help pointing out that, on the other hand, such high taxation of capital incomes is not the best way to encourage the country's productive activity and the formation of savings.

3. — This, in brief, was the situation of the Italian taxation system following 8 Sep-

tember, 1943, with the factors that caused it and the effects that resulted.

The Revenue Administration, of course, did not impassively watch this collapse; they reacted as much as their capacity and the general situation permitted. At first slow and undecided, they progressively intensified and clarified their activity, following several lines of policy to reach their goal: increase of the tax revenues, improvement of the distribution of the tax burden among the various categories of taxpayers, and the "demobilization" of the wartime fiscal restraints.

The following pages outline the series of measures gradually taken by the Italian Revenue Administration within the general framework of the financial rehabilitation policy which is just now entering its most exacting stage. For greater clarity the measures taken to increase the tax pressure will be grouped under three categories:

- adjustment and revision of existing taxes;
- introduction of emergency taxes having a social and political background;
- imposition of extraordinary taxes on property.

Adjustment and Revision of Existing Taxes.

4. — A laborious and complex work has been carried out in this field, a large number of revisions being required by the fluidity of a situation made extremely unstable by the inflation process. An exhaustive analysis would take up much space and would touch technical details of little interest to a foreigner. The following study, although of a summary nature, will be detailed enough to convey a sufficiently clear impression of the complexity of the Italian taxation system as further intensified during the war, of the profound maladjustments and disruptions caused by the exceptional war-time and inflationary conditions, of the resistance and offensive held by the Revenue Administration, and of the main problems which are still open and unsolved. The foreign student may find in this appa-

rently dull review, besides a coordinated reference to the main legislative sources for the study of the Italian tax policy in the recent period, an initial documentation of the efforts made by the Revenue Administration to break through the deadlock of Italian finances, and a reflection, which it would be quite interesting to study more closely, of the opposition and resistance raised by the various and revolutionized categories of interests.

The first method followed, of course, was that of adjusting the taxable amounts and specific taxes to the changed level of incomes and prices whenever possible so as to reduce the most obvious causes of the decline in tax pressure. In general, the Administration decided quite reluctantly to apply the summary method of revaluation multipliers (see below), as this was recognized to be an extremely unfair technique. The Administration is to be praised for this reluctance — perhaps it can be blamed in that, once adopted, it did not push the system through more aggressively and in a more coordinated and systematic manner, without adopting different multipliers for each tax when no logical reason warranted such provisions. However, the final solution of the problem of adjusting direct taxes must await the end of the process of monetary devaluation.

In the field of indirect taxes, and specifically of taxes on transfer of property, the taxable amounts, as a result of the nature of the assessments and collection, rather closely follow the movements of monetary values, and therefore the action of the Revenue Administration can be limited to the repression of tax evasions. Here the progress made by the Administration has been truly satisfactory. Specific taxes, however, especially those on manufactures and consumption, have continually required increases. It cannot be said that so far these increases have kept pace with the increases registered by prices; perhaps the Revenue Administration could have remedied this inconvenience by changing these taxes from specific into *ad valorem*, as it did for municipal excise duties. It might be added that the increases decided upon were not perfectly harmonized either in date of application or between each item. But these failings are

comprehensible if one bears in mind the strong reaction put up by consumers and other classes affected.

A second method was attempted, that of increasing the pre-existing rates, but the results were generally negative as the excessive weight of the rates stiffened taxpayer resistance and evasion.

The measures (4) taken by the Revenue Administration have been effected particularly in the following sectors.

5. — In the field of direct taxes, the tax on buildings and related local surtaxes have not been modified because of the existence of a freeze in rentals, which has resulted in a considerable curtailment of real income and often also of nominal income.

Land taxes are assessed in Italy using the system of cadastre according to which the average continuing income is ascertained through a long period of time and is revised only periodically. As a consequence of the revision made before the war (5) which kept the revenue offices occupied for several years, base valuations are based on assessments expressed in pre-war values. In view of the considerable and irregular increases registered by prices of agricultural products and of the fact that the system followed for assessments made it impossible to carry out a rapid revision (which, granted, was highly inadvisable in view of the present instability of the currency and abnormality of the agricultural market), the rates of the tax were first increased and later the incomes themselves were subjected to an automatic revaluation. Thus, effective 1st January, 1945, land use tax rates (6) were automatically revalued by applying a multiplier of three (7); effective 1st January, of six (8); and then of twelve (9). A determination of multipliers varying in accordance with changed agricultural income is especially difficult because of the considerable difference among the increases of incomes, each varying with type of crop, agricultural zone, and type of tenure. As the cadastral system is not one that will permit a discrimination between cases, it was necessary to adopt the lowest multiplier to avoid putting too heavy a burden on the marginal cases. In this field, therefore, there are still sectors

(4) Following are the meanings of the Italian abbreviations used when referring to Laws or Decrees:

R.D.: Royal Decree; R.D.L.: Royal Legislative Decree; D.L.L.: Legislative Decree of the Lt. General of the Kingdom; D.L.P.: Presidential Legislative Decree (under the Republic regime).

- (5) R.D.L. No. 589 of 4 April 1939.
- (6) D.L.L. No. 384 of 19 October 1944.
- (7) D.L.L. No. 30 of 7 February 1946.
- (8) D.L.P. No. 364 of 31 October 1946.
- (9) D.L.P. No. 356 of 12 May 1947.

which are paying too low a tax for their capacity to pay; but unfortunately the Revenue Administration can do nothing but wait for the financial situation and the agricultural market to normalize, meanwhile gradually increasing the multipliers — this while waiting for conditions in which radical revisions of the assessments will become practicable.

In the field of the Income Tax, their unprecedented derangement called imperatively for an emergency provision that would allow the Revenue Administration to revise the standing of the individual taxpayers. Initially, an automatic revaluation of incomes by applying properly discriminated multipliers was also considered for this field, but this was first rejected as a solution, since well-known events had created profound changes in the position of the individual taxpayers and unequally affected the various economic groups. A longer and harder system was selected, but one which afforded greater guarantees of equitability: the incomes of the Category B (incomes from capital and earnings mixed, such as the profits of a business enterprise) and Category C (incomes independently earned, such as the earnings of professional men) were subjected by the tax office to an extraordinary revision (10) which took as a basis the income of the same period (1943) for each taxpayer independent of the date at which his particular assessment would finally be made; adjustment was then made for the circumstances arising in 1944 which in any way affected the amount of the income and its nominal value. To ensure a quick collection of taxes on the revised assessed incomes, the Law as an exceptional measure authorized that assessments in the amount calculated by the Revenue offices be recorded on the official taxpayer list. The work carried out by the Administration was a huge one as it was necessary to revise one by one the positions of several hundred thousand taxpayers. The Administration had hoped to complete these operations within a time limit which experience proved excessively optimistic; initially fixed at 30 June 1945, it had to be successively postponed to 31 December 1945 (11), 30 June 1946 (12), and the latest, 30 June 1947 (13). The spreading out of the work of revision over such a long period of time in practice resulted in a partial failure of the revision scheme since as inflation progressed the revised incomes rapidly became anachronistic, and the piling up of postponed tax years from 1943 to the year in which the assessment was made stiffened the taxpayers' reluctance to agree upon the amount assessed as taxable. On the other hand, the excessively high tax-rates made it impossible, for obvious reasons of equitability, to make assessments correspond to incomes actually being received. With the aim of avoiding these drawbacks and hastening

the return to normal in this field, a Decree now being enacted provides that incomes will be automatically revised with a fixed multiplier—compared with the individual revision system this one presents fewer inconveniences—and the rates will be reduced (in such a way, however, that higher charges to the taxpayer will always result).

The ordinary property tax (14), abolished effective 1 January 1948, presented the problem of adjusting the taxable amounts, with aspects of complexity due above all to the low yield of some sources of income. While some investments yield large dividends, others yield nothing or next to nothing, and a single rate, however determined, has a very high impact on some sources of income while for others it is quite supportable. Initially, an adjustment of the impact was sought by raising the tax rate from 0.5% to 0.75% (with effect from 1 January 1945), and this rate was applied to the average 1940-42 value of other sources of income. Later this policy was changed. For the three years period 1947-49 taxable amounts were subjected (15) to an automatic revaluation with a multiplier of ten (reduced to five for building property). At the same time the rate was cut to 0.40%, so that the actual burden increased five times (two and a half times for building property). Had a revaluation multiplier higher than ten been used, while proportionally reducing the rate, the taxable amounts would have fallen closer to current values and besides achieving a fairer distribution of tax pressure would have laid the groundwork for further measures (capital levy).

In the field of indirect taxes the problem presents different aspects as the predominant system is that of specific taxes, i.e., taxes based on quantity, capacity, or some qualitative factor, rather than on value. Consequently, as the value of the money decreases taxes determined on this basis must be gradually increased. To this end the stamp taxes (registration and stamp duties, which have the character of taxes on business) were repeatedly increased (16), as well as manufacture taxes (which are substantially consumption taxes collected at the moment when the goods are removed from the producer's warehouse) (17), consumption taxes, and customs duties on "colonials" (18).

(14) Enacted by R.D.L. No. 1539 of 12 September 1939. This tax was conceived as a tax on unearned income, based not directly upon income but rather on capital values. The base values, to avoid taxing either excessively or inadequately, are the average of the three years preceding the collection of the tax, and once assessed remain unchanged for three years.

(15) D.L.P. No. 382 of 31 October 1946.

(16) D.L.L. No. 89 of 1 March 1945, providing for an approximately 50% increase, and D.L.P. No. 242 of 11 April 1947.

(17) D.L.L. No. 323 of 26 April 1945; D.L.L. No. 237 of 26 April 1945; D.L.P. No. 43 of 5 August 1946; D.L.P. No. 236 of 21 October 1946; D.L.P. No. 116 of 21 March 1947; D.L.P. No. 142 of 29 March 1947; D.L.P. No. 226 of 11 April 1947; and D.L.P. No. 278 of 5 May 1947.

(18) D.L.P. No. 205 of 14 October 1946. "Colonials" include such foodstuffs as tea, coffee, sugar, spices, etc.

(10) D.L.L. No. 384 of 19 October 1944.

(11) D.L.L. No. 290 of 25 May 1945.

(12) D.L.L. No. 31 of 7 February 1946.

(13) D.L.P. No. 462 of 22 November 1946.

6. — The return to normal of tax assessments and the adjustment of fixed and specific taxes to the changed monetary values can continue, especially during a monetary devaluation process, only with extreme slowness and imperfection. The Revenue Administration, therefore, sought new sources of revenue also by increasing tax rates.

The increase of tax rates, however, yielded results contrary to those desired, and the Administration often had to retrace its steps and start out fresh on the matter. The actions taken in this respect are summarized as follows.

As regards the "Imposta di Ricchezza Mobile" (roughly equivalent to the U.S. income tax), effective 1 January 1945, the tax rate was increased in the following measure (19): incomes derived only from capital (Category A) from 24 to 30%; mixed capital and earned incomes (Category B) from 18 to 26%; independently earned incomes (Category C) from 14 to 16%. No change was made in the 8% and 4% rates on the incomes of employed workers (respectively, salaries of clerical workers and wages of manual workers). As regards Category B the rate increase is merely nominal as at the same time the special 10% tax on income from individual business enterprises was abolished (20) and the tax on dividends was decreased from 25 to 10% (21).

Such heavy rates, however, (which are further raised by surtaxes and other duties levied on the same incomes) proved a serious obstacle to a more correct assessing of incomes. And therefore a Decree now being enacted provides for their radical decrease in connection with an automatic revaluation of incomes. It is hoped that this decrease in tax rates will put the offices in a position to assess the taxable amounts at a level much closer to the actual incomes.

The increase of progressive taxes, as is well known, becomes automatic during the process of monetary devaluation since the same taxable real value steadily increases in nominal value and consequently is subjected to the payment of the higher rate. In the Italian system this occurs in the progressive general income tax and the inheritance tax. The changes in the rate introduced by law, sometimes intended to further increase the progressiveness and sometimes formally but inadequately decreasing it, are actually and *de jure* a sanction of the higher progressiveness caused by the monetary devaluation. Thus the general income tax (*imposta complementare*) (22), allowance being made for the additional tax established

in 1940, was applied at rates increasing progressively from 1% for net incomes of 3,000 lire to a maximum of 20% for total net incomes exceeding 1 million lire. A first increase provided for increasing the rate from a minimum of 2% for 12,000 lire incomes up to a maximum of 75% for incomes exceeding 60 million lire (23). The rate for 1 million lire was raised from 20 to 25%. Subsequently (24), the minimum taxable income was raised to 60,000 lire, taken to be roughly equivalent to the 3,000 lire of the initial rate. Slightly reduced for the lower brackets, the rate was left unchanged for the highest, and ranges from a minimum of 2% for 60,000 lire incomes to a maximum of 75% for the incomes exceeding 60 million with a 12.5% rate applying to the 1 million incomes.

The rates on the inheritance tax were modified in 1945 (25). The estate and legacy and succession duties scaled in accordance with the degree of kinship, were generally raised with the exception of a slight decrease (quite unproportioned to the changed value of money) for the smaller estates. The maximum rates for the five classes of taxpayers contemplated by the tax scale were respectively raised from 10 to 25%, 18 to 30%, 21 to 50%, 29 to 60%, and 50 to 80% (26).

At the same time a series of facilities and exemptions granted to families with more than one child were either cancelled or reduced, thus contributing to the increase of the tax pressure.

Such high rates present serious difficulties. In fact, we notice that the yield of the general income tax shows a considerable decrease in the higher brackets as compared with those in the lower ones. A revision of the whole scale of rates is therefore rather urgently called for, and there is reason for belief that the problem will be solved effective next year.

The rate of the general turnover tax (*imposta generale sull'entrata*), originally (27) at 2%, was subsequently increased (28) to 3% by adding a 1% special wartime surtax. At the end of 1944 (29), the general rate was raised to 4%, at the same time dropping the surtax. The special rates (30) for certain products of a luxury nature were raised from 6 to 8%. In December 1946 (31) the normal rate was brought back to 3% in order to keep evasions under

(19) D.L.L. No. 384 of 19 October 1944.

(20) D.L.P. No. 87 of 27 June 1946.

(21) D.L.L. No. 90 of 8 March 1945.

(22) The last rate prior to these modifications was determined by Enclosure "A", D.L. No. 43 of April 1940.

(23) Established by D.L. No. 2 of 9 January 1940, this tax is levied on all monetary gains in connection with the transfer of property or the rendering of services, except the movement of capital and salaries and wages.

(24) R.D.L. No. 452 of 3 June 1943.

(25) D.L.L. No. 348 of 19 October 1944.

(26) Established by Law No. 1608 of 1 Nov. 1940, these taxes are levied on champagne wines, liquors, cameras, lenses and film, essences, perfumes and cosmetic products.

(31) D.L.P. No. 469 of 27 December 1946.

stricter control by subjecting the taxable incomes to a more accurate assessment. The result achieved by the Administration (which gradually intensified its repression of evasions) since that time were truly satisfactory, and the yield has grown to such an extent as to make one believe that it is now almost normal.

Following out the policy of levying higher taxes on luxury-type consumption, the rates of taxes on public entertainment, which are scaled in proportion with the price of the admission ticket, were increased by 50% (32). Subsequently however (33) the Administration yielded to the pressure of the categories concerned and in many cases rates were re-lowered.

The 10% tax on the price of some textile products, which was established in 1943 (34) in behalf of local governments, was subsequently extended to cover all textile products at the rate of 6%, to be paid upon transfer of the goods from the manufacturer to the dealer (35). Such a tax, however, levied on production rather than consumption, represented such a novelty in the Italian local tax system as to originate a number of troubles at the moment of its practical application. This tax, therefore, was later very wisely replaced with a State manufacturing tax on textile yarns (36).

To aid the finances of local governments, whose budgets are in very difficult straits (the State contributions to meet only a part of their deficit in 1946 rose to a good 38 milliard lire), organic measures were decided upon in 1946 (37). The most important structural reform introduced on this occasion was the transformation of consumption taxes from specific into *ad valorem* taxes, making it possible for their yield to adjust to the variations in prices without requiring new legislative enactments. This provision, which increases all local taxes, was coordinated with others, such as the establishment of a 50% surtax to motor vehicle taxes (38), the raising of the maximum rate of the family tax from 8 to 12% (39), and, lastly, a new general increase in all local taxes.

7. — Although it operated under the most difficult conditions, the Government took every opportunity to eliminate the tax superstructures, which had recently been getting to be of considerable annoyance to both taxpayers and Revenue Administration.

In 1944 (40) the special 10% tax on Category B incomes not subjected to the tax on dividends (41)

(32) D.L.L. No. 76 of 8 March 1945.

(33) D.L.L. No. 538 of 30 May 1946.

(34) R.D.L. No. 65 of 11 January 1943. The amount of this tax is based on the price of sale of these textiles from producer to wholesaler.

(35) D.L.L. No. 530 of 7 September 1945.

(36) D.L.P. No. 1 of 3 January 1947.

(37) D.L.L. No. 100 of 18 February 1946.

(38) R.D.L. No. 62 of 8 March 1945.

(39) D.L.L. No. 97 of 27 June 1946.

(40) D.L.L. No. 384 of 19 October 1944.

(41) Established by R.D.L. No. 205 of 12 April 1943, its purpose was to tax the incomes of individual business enterprises,

was abolished by incorporating it into the income tax; subsequently the tax on dividends (*imposta cedolare*) (42) after the establishment of the compulsory registration of stocks, lost all logical justification (43). Provision was made, as will be seen below, for the abolition of: a) the tax on war profits, b) the ordinary property tax, now replaced by the extraordinary proportional 4% tax until 31 December 1948 (44), c) the tax on bachelors, now incorporated into the general income tax of which in substance it represents a surtax (45) which affects him whenever the bachelor has an adequate income (at the old rates of 1 to 10%), d) the progressive register tax on real estate transfers (3 to 30%) now replaced by the normal register tax (46).

The taxation of the incomes of employed workers (Category C) of the income tax) was considerably simplified (47) by abolishing the extraordinary 2% due on exempted salaries (48). In fact, because of the piling up of diverse provisions, the taxation of salaries, before the Law of 19 October 1944, was a highly complicated procedure, as one portion of the same income could be taxed 2%, another portion 4%, and another exempted, involving difficult calculations and investigations. Under the provisions of the Law of 1944, all earned incomes exceeding 20,000 lire were taxed 4% and those below 20,000 lire were exempted.

Other laws and taxes could perhaps have been eliminated or simplified if not for such factors as Treasury requirements that did not allow the slightest sacrifice of revenue, necessary economic and financial premises not yet matured, and certain conflicts with the sentiments of the population.

The introduction of social and political taxes.

8. — The public sentiments and the need for a more equitable system of taxation could not but be considered by the Government in working out its taxation policy. It was, therefore, compelled to sometimes take measures more of a political than of a strictly fiscal nature.

One of public opinion's most insistent de-

paralleling the function of the tax on dividends from corporate incomes. The amount of the tax was based on the income assessed for the income tax with a variable deduction for incomes in the lower brackets.

(42) Established by R.D.L. No. 1627 of 7 Sept. 1935, this tax was based on the amount in dividends or interest received by securities holders.

(43) D.L.L. No. 403 of 14 May 1946.

(44) D.L.P. No. 143 of 28 March 1947.

(45) D.L.L. No. 384 of 19 October 1944.

(46) D.L.L. No. 141 of 5 April 1945.

(47) R.D.L. No. 384 of 19 October 1944.

(48) Established by Law No. 870 of 25 June 1940.

mands was for some provision on the enrichment of fascist leaders (*profitti di regime*). This matter had already been dealt with, immediately after the fall of fascism, by the first Badoglio Government (49), and was reconsidered in 1944 (50). This provision relegated to the State all property acquired after 28 October 1922, except when it could be proved that such property had been lawfully acquired, by all those who had held or had been in any way active in fascist political activity as well as their ascendants, descendants, spouses, or whomever was in business association with them or had interests in common. This measure, because of its political character, met enormous difficulties in putting it into effect, and had to be repeatedly revised to make the procedure more strict and uncompromising and its limits wider (51), partly because of the fear of the Government that in view of the scanty yield it might be charged with insufficient zeal.

It was mainly the difficulty encountered in ascertaining each particular case that made the Government decide to include this law within the scope of the general taxation system, thereby changing it from a penal sanction to a fiscal charge (52). The settlement reached between citizen and Revenue Administration as to the amount that could be confiscated was an all-important step in this direction and gave rise to vivid hopes of a speedy execution of this measure. Unfortunately, events did not correspond to these optimistic wishes. Instead, the yield (which had been expected to be as high as 100 milliard lire) will materialize into a very modest figure.

During the summer of 1940 an extraordinary *excess profits tax* had been introduced (53). With the end of the war there remained little reason for this tax; the reference period for "normal" profits, after the turmoil just undergone, lost all significance; on the other

hand it became necessary to discontinue the tax in order not to interfere with the normal functioning of the income tax and not to create hindrances to economic rehabilitation. As of 1st January 1946 the Government did discontinue it and at the same time issued instructions to the effect that all profits obtained between 1940 and 1945 over and above normal limits, if not already subject to the E. P. T., should be confiscated (54).

The abnormal economic situation during recent years, however, has given birth to a rash of sudden enrichments of a speculative origin particularly disliked by the people. After a first partial attempt (55) which did not satisfy public opinion, the provisions for the confiscation of war profits (56) were extended to allow the State to confiscate all profits resulting from activity of any kind however connected with either the shortages caused by war, improvised speculation, or even unjustified levels of living and property. Ministerial instructions clarified these vague directives to mean that all profits originating from illegal activities or at least those contrary to moral ethics were taxable. The entire matter was later re-elaborated (57) (the name, in this occasion, being changed to "emergency profits" - *Profitti di contingenza*) by extending its targets to include previously neglected cases (such as: State goods allocated to private business for war production, which, taking advantage of economic disorganization, resold the goods at uncontrolled prices on the free market; unearned profits arising from the difference between the blocked purchase price and the free selling price of industrial products sold at the time price controls are lifted). The effective date of some of the measures was 1st January 1939, of others 1st January 1945.

This tax on emergency profits and speculation has many arbitrary characteristics, as much because of its principle of retroactivity, perhaps too light-heartedly adopted, as for its procedure of assessment and guarantees for the collection of the tax levies, which is a system ab-

solutely new to Italian law and often injurious to the rights of the third party who acquired in good faith using legal means, as also for the wide discretion it leaves to the tax officer on whose subjective criteria the application of the law often depends.

Certainly the confiscation of political and of emergency profits are both exceptional measures in the strictest sense of the word, including as they do legal principles foreign to traditional Italian tax principles and above all because the determining elements in distributing the tax burden is not the size of income or property but the political status of the subject and the, let us call it, moral qualities of the income. This innovation found the financial bureaucracy unequipped and yet compelled to ascertain circumstances outside the bounds of its normal activity. Hence were created a considerable number of difficulties and obstacles which interfered not a little not only with the collection of exceptional but with that of normal taxes as well.

The critics could go on. However, against the suggestions above and others of similar force was the fundamental undebatable need for financial justice against the newly rich who, without creating profits that would help the Nation's economic recovery, swarmed around so many compromising or ruined economic situations.

It is highly probable that such exceptional measures would not have appeared had, as in other countries, the property increases that occurred during recent years been heavily hit, as was proposed by the original project of the Capital Levy to be discussed below. A substantial impost in that sector, even without completely eliminating all arbitrary aspects, would at least have meant a real system with every guarantee of objectivity. It was, I maintain, a mistake to have rejected such solution, a mistake that was everybody's fault: the parties of the left who in wanting to make the tax a political instrument by making it retroactive to 1935 caused just alarm among real savers who had lawfully and laboriously accumulated their savings over such a long period of time; the parties of the right, who on the other extreme, blinded by an exaggerated conservatism,

feared the tax beyond reason and showed that they preferred the worst but the (at latest apparently) temporary solution to the best and most conclusive one; the country's public opinion, which allows itself to be appeased by a tax having only formal efficiency but in practice being inoperative and arbitrary. On the whole, a bitter conflict of tendencies forced the selection of just that method which was most expensive and most incongruous in order to satisfy a state of mind of the collectivity which was certainly based on serious and legitimate grounds (58).

The Capital Levy.

9. — The taxation measure which constitutes a substantial burden for its taxpayers and a decisive step in the financial efforts of the Country is the *extraordinary tax on property*.

This tax was long and widely discussed in Italy, and since 1945 diverse plans for it were drawn up and abandoned by the Ministry of Finance. The tax as originally conceived was to be: a) joined with a change of currency, an operation which would have allowed the ascertainment of individual money holdings and bank deposits; b) combined with a tax on increase in real net property that occurred during recent years.

Altogether it was a complex plan touching on contending political and technical problems. In effect, to the difficulties already mentioned in the taxation of property increases were added opposition and resistance to the so-called "currency change". The outcome, after laborious discussion, was the abandonment of the original scheme which was at least theoretically a more rational one, and the adoption of a simpler if less integrated bill: D.L.P. No. 143 of 29 March 1947.

A detailed study of the new tax would be of interest; but as it is at present under study by the Constituent Assembly, where, it is now evident, it will undergo modifications, it seems best to postpone all deeper analysis, pointing out

(58) No mention is made here of taxes connected with the so-called "National Solidarity Fund", also of a particular nature but of slight substantial importance. See D.L.L. No. 72 of 8 March 1945.

(49) Particularly R.D.L. No. 720 of 9 August 1943, concerning the reversion to the State of property the origin of whose ownership was not justified.

(50) D.L.L. No. 159 of 27 July 1944.

(51) See especially D.L.L. No. 364 of 31 May 1945, D.L.L. No. 134 of 26 March 1946 and D.L.P. No. 392 of 19 November 1946.

(52) D.L.L. No. 134 of 26 March 1946.

(53) Law No. 813 of 1 July 1940.

(54) R.D.L. No. 436 of 27 May 1946.

(55) D.L.L. No. 199 of 10 August 1944, Art. 8.

(56) Art. 38 of the R.D.L. No. 436 of 27 May 1946.

(57) D.L.P. No. 330 of 28 April 1947.

here only the main features in its present form and the main problems which might be met in its application.

The plan is divided into two parts: a) a proportional tax; b) a progressive tax.

a) The proportional tax is to be paid by all who in the calendar year 1947 were subject to the ordinary tax on property mentioned above. The amount due is 4% of the taxable amount ascertained for said ordinary tax and is payable in equal bi-monthly instalments from July 1947 to December 1948. If he so desires the taxpayer may pay the entire sum before August 1947, taking advantage of a 10% discount. At the same time, as of 1st January 1948 the ordinary property tax is discontinued. The importance of this tax may be appreciated bearing in mind that its yield is expected to be 80-100 milliard lire.

b) In addition to the proportional tax, all taxpayers who as of 28 March 1947 owned property of at least 3 million lire are subject to a progressive tax based on net property. The individual assets and liabilities are to be valued on the basis of their average values in 1946. Stocks and bonds are valued on the basis of the half year October 1946-March 1947. However, the lack of a normal market for real estate make appraisals of current average value by the taxpayer or Revenue Administration extremely difficult; to overcome this difficulty an official committee of the Ministry of Finance is charged with finding appropriate coefficients for each type of land and construction in each locality to be automatically applied to the various incomes in order to arrive at the capital value of all properties subject to the tax. The property taxed is that possessed by the taxpayer net of all liabilities and charges. A series of presumptions are decreed to allow the Revenue Administration to investigate on those sources of income which by their nature cannot be directly inspected, such as cash and bank deposits owned by the taxpayer. Ample powers of audit and inspection are given to the organs of the financial administration in order to reduce possibility of evasion to a minimum and to assure to the bill all bases for the highest success. This tax must be paid between 1st January 1948 and 31 December 1951

with deadline postponed to 31 December 1953 for taxpayers who own chiefly real estate. Rates range from a minimum of 6% for estates of 3 million lire to a maximum of 41% for estates of over 1 milliard.

The tax is indubitably very heavy if one considers the present low yield of property, the high rates, and the too brief period allowed to the taxpayer for payment. The estates even slightly above the lower limit, in order to pay the tax, will have to turn over not only all their incomes during the coming years but also a part of their capital. From this point of view, and this is especially true for the proportional tax, the tax is subject to criticism for the additional sacrifices it may impose on just those middle classes who have suffered most from the present emergency. Recourse to the market, on the other hand, is difficult and disadvantageous as even the greatest estates cannot dispose of sufficient liquid availabilities and will therefore have to resort to the sale of personal and real estate properties.

This is a delicate point which should be borne in mind. Other objections, however, appear to have less substance.

Thus it is said that the tax is being introduced at an inopportune moment, at the starting up of economic recovery, a movement it would be well not to handicap with exceptional imposts. Now it is true that hitting investment capital at just the most delicate moment in the economic recovery would jeopardize the tendency toward improvement, but it is also true that after so much discussion some such tax had come to be expected and feared as inevitable, and taxpayers while waiting were taking steps to conceal their savings. In this way an artificial current had been created in the market which in the long run would have interfered with economic rehabilitation more than the tax itself.

On the other hand the workers, who for years were carrying the brunt of the inflation, demanded for clearly understandable reasons that part of the burden be assumed by the wealthier classes through a tax of this nature. In addition to the necessity of economic recovery, also reasons of taxation justice made it impossible to dodge a solution.

It has also been pointed out that an extraordinary tax of this kind if applied during an inflationary process is inopportune in another sense, in the possibility that its yield will little by little be annulled. The objection is undoubtedly important. But the present Italian Government has put at the basis of its policy the most energetic defense of the value of the lira, and this it intends to accomplish chiefly by reducing the financial deficit of the State, restraining its expenditures and increasing its receipts. The extraordinary tax on property is precisely designed to be a substantial contribution to the success of this policy. If one considers that besides the 80-100 milliard lire expected from the proportional tax, the progressive tax (spread over a six-year period) may yield 400-500 milliards of lire, it is easy to see that this hope is not utterly unjustified.

It should be noted that along with the tax a policy of credit restriction is to be carried out. This is to prevent the tax from being an inflationary stimulus. If the taxpayer cannot have recourse to bank credit there is nothing left for him but to sell his capital and consumption goods to secure the means necessary to pay the tax; and with this there will be a push toward the lowering of prices.

The capital levy leaves open for the time being the problem of taxing the increased monetary value of corporation assets. It is not beyond possibility that this problem will be settled by the Constituent Assembly when the tax law is being written in its final form. At present the most suitable way is being sought to directly tax corporations and collective groups by considering them as separate persons side by side with physical persons.

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10. — The above, in digest form, is the picture of Italian tax legislation during these recent years. To attempt an overall evaluation at the present fluid but maturing stage would perhaps be premature.

Certainly it cannot be affirmed that the solutions chosen have always been prompt and adequate to the problems to be met. As we have seen, measures issued were often unco-

ordinated and incomplete (as in the adjustment of taxable amounts and in specific taxes), or brought results contrary to those expected (as for some increases in rates), or were unintegrated with the general tax system (as certain extraordinary taxes). This happened for several reasons: partly because of a certain inexperience on the part of the new governing class that rose out of the ruins of fascism, partly in response to the needs and pressures of the masses of the people perhaps using over-simplified means not always conforming to the philosophy of the Nation's tax system even though inspired by motives of justice, partly for the necessity to compromise with the tenacious resistance of the conservative positions, partly and above all because of the extremely precarious situation in which the Revenue Administration was placed by the general disorganization and inflation which rendered all revenue matters immediately obsolete. The whole situation represents a grand complex of efforts which deserve to be appreciated precisely in view of the seriousness of the situation and of the difficulties in finding the point of equilibrium between the various interests fighting to better themselves in the division of the heavy burdens left over by the war.

I would not say, however, that the Italian taxation system, taken as a whole, has become substantially heavier since 1943. The only real increases are those on the progressive personal tax on total income and the inheritance tax (where the intent of the legislators was assisted by the increasing inflation process) and the introduction of the extraordinary proportional and progressive tax on property. Therefore, tax increases there were — for the higher incomes and property incomes. To these should be added the other exceptional measures, confiscation of political, emergency, and war profits, which, however, by their nature can hit only classes with limited numbers and are not, therefore, of great importance in equalizing tax burdens under a more general plan. But I do not hold that the Administration should be criticized for insufficiently intensifying the pre-existing taxes, as under the present abnor-

mal situation any increase in tax rates shows opposite effects.

Substantial results depend chiefly upon the rigorosity of the assessments and on the elimination of tax evasions, and, in this, success is conditioned to a large extent by the return to normality and only in part on the work of the administration and on its functional administration. Progress under this second aspect, has been effective and comforting. The efficiency of the administrative apparatus has regularly increased after the 1944 crisis and has gradually allowed a more organized activity. It has, therefore, been possible on more than one oc-

in the new Constitution now being drafted, which will apparently provide for a large amount of administrative decentralization. Nothing can be said on the orientation of the expected reform except that in all probability it will emphasize taxes of a progressive character and on individuals.

Anyhow, in spite of the difficulties discussed above, it cannot be denied that the Italian Government has made important progress in the field of taxation, especially during the financial year just completed. The following table seems to me to be convincing evidence of this:

STATE TAX YIELDS IN THE FISCAL YEAR 1946-47
(in millions of lire)

	Direct taxes	Indirect taxes	Consumption taxes	Other taxes	Monopolies & Lotteries	Total
1946 July	4,028	6,990	222	1,177	4,082	16,439
August	4,236	7,077	241	1,671	4,778	18,003
September	3,286	8,006	219	2,096	4,770	18,377
October	3,753	11,271	269	2,178	4,867	22,438
November	3,421	13,334	282	2,773	5,361	25,175
December	3,482	11,885	266	3,108	5,668	24,409
1947 January	4,860	11,960	332	2,728	5,648	25,537
February	6,156	11,693	388	2,639	5,258	26,133
March	5,327	12,200	361	3,538	5,405	26,830
April	6,302	13,862	365	5,082	6,742	32,352

casions to trim our legislation of many recent incrustations, above all incorporating the legislation of these years into the body and philosophy traditional to the Italian system.

Recent tax policy, however, has not so far removed the difficulties caused by excessive legislation. In fact, the legislative measures elaborated by the ministerial offices with no control by public opinion or Parliament must under the pressure of unforeseen and unforeseeable economic developments often be re-examined and more often modified a short time after being issued. This has contributed not a little confusion to the tax system, and legislation has been complicated not only for the taxpayers but for the Administration itself.

This situation, together with new demands for the redistribution of the tax burden, have now made urgent and inevitable a radical reorganization of the taxation system. This will be difficult also because it is necessary to consider the position of the local bodies as changed

The 100% increase in tax receipts in ten months and their continuing upward trend is a comforting feature not belied even by the rise in prices. In fact, the index of wholesale prices went from 2675 in July 1946 to 4526 in April 1947, indicating an increase of 65%. Thus, more important than a nominal increase, there is a real increase, an increase destined to grow considerably during the second half of the present year, which will also include collections on the extraordinary tax on property. All this allows a prediction that within the present calendar year tax receipts will top 45 milliards a month, carrying effective receipts to about 50 milliards a month.

At the same time, the present Government firmly intends to keep actual expenses at the lowest possible level, meeting greater expenses caused by unavoidable circumstances either by reducing other items of expense or by further increasing the tax pressure. The actual budgetary deficit for 1947-48, at present estimated

at little over 300 milliard lire, is likely to become finally stabilized in the vicinity of 300 to 400 milliard lire — a figure which, due allowance being made for the changed level of prices, presents very appreciable progress when compared with the 610 milliard effective calculated deficit for 1946-47.

It is true that the tax policy is but one particular aspect of a country's financial and monetary policy, cause and at the same time outcome of a situation of more general character and importance. It has been often enough repeated that no tax policy, iron-handed as it may be, will ever achieve satisfactory results as long as the inflation process is in progress. Conversely, however, it is also true that as long as the tax collection is insufficient to substantially reduce the deficit in the State's budget, if not to eliminate it altogether, it is highly unlikely that the inflation process can be stopped. This is the vicious circle that at a certain moment must be broken if the dynamics of devaluation are not to go out of bounds.

Many symptoms lead one to hope that the vicious circle is at last on the verge of being broken. Already at the end of the last financial year the deficit was stabilized at a figure lower than that for the last months of 1946, especially in terms of real value (59).

(59) Actual Receipts and Expenditure of 1946-47 Italian Budget (a) (millions lire).

Month	Current Items		Deficit	Deficit corrected for price level (June 1946 = 100) (b)
	Receipts	Expenditures		
1946 July	16,955	47,818	30,863	29,954
August	18,804	48,301	29,497	27,312
September	19,396	77,044	57,708	49,748
October	23,892	90,203	66,311	53,533
November	26,810	134,444	107,634	81,256
December	26,577	81,213	54,636	38,176
1947 January	26,877	77,735	50,858	35,071
February	28,468	79,362	50,894	33,989
March	33,849	84,789	50,935	31,834
April	34,304	85,310	50,946	29,112
May	38,977	85,276	46,299	23,149

(a) Source: "Situazione del Bilancio dello Stato" (Situa-

For its part, the policy of credit restriction, firmly pursued since June 1947, ought to strengthen the results of two years' work devoted to the reorganization of the tax machinery and ought to ensure a paid-in increase in revenues much more substantial than that which began showing in the last months of the 1946-47 financial year. That policy, in fact, pursued with coherence and flexibility, will necessarily affect the behaviour of prices. For the time being, the result of the new policy is clearly evidenced by the free markets of foreign currencies, gold, and stocks, all of which were showing a pronounced downward trend. In the field of prices of finished products the effects of the policy are felt only in some specific sectors, but if we persist it should either stop or even reverse the tendency of some of the price indices.

These are many of the positive factors closely coordinated with general financial action which, in conjunction with the considerable economic recovery which is now clearly taking shape, should favorably effect the yield of taxes and the State's financial situation — so that we may expect in the near future a deficit shrunk to such dimensions that it may be met by recourse to the money and capital markets (60) without inflationary consequences.

Although the Italian financial situation is still serious and demands the greatest caution in making forecasts, the possibility of a reversal of the economic movements and of stopping the process of monetary devaluation is now taking more concrete form. Within this framework the extraordinary tax on property makes its probably welltimed appearance as an anti-inflationary instrument; and it should be and actually is considered under this guise in the drafting of its implementation and its coordination with the other delicate aspects of the over-all financial policy.

tion of the State Budget), published in "Supplementi straordinari della Gazzetta Ufficiale" 1946-47.

(b) Index numbers of wholesale prices calculated by the Central Institute of Statistics, in *Bollettino dei prezzi*, 1947, n. 2 and 3.

(60) The problems concerning the aid sought by the Italian Treasury on the monetary market are analyzed in a study by M. Mascini which follows the present article.